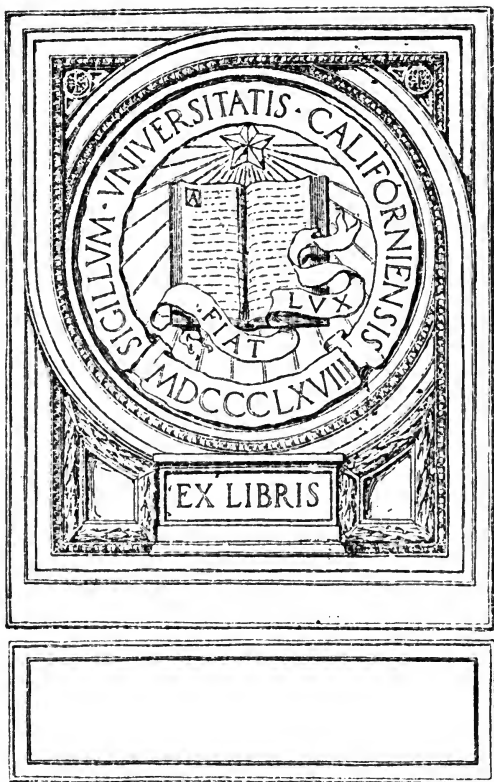


# RETAIL CREDITS AND COLLECTIONS

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△ DWIGHT E. BEEBE △





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**RETAIL CREDITS AND  
COLLECTIONS**

# HARPER'S RETAIL BUSINESS SERIES

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*In Preparation*

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## GOOD CREDIT

*THE finest thing a man can have is credit at the store; it is a balsam and a salve for every mortal sore. The customer who pays his debts when due has shining fame. "He is the best of all good bets," the merchants all exclaim. And when misfortune dogs his heels, as it will visit men, and he is shy of plunks and wheels, of kopecks, dough, and yen, the merchants say: "Buy what you will, and we will gladly wait till you are fixed to pay the bill—we know that you are straight." The man who does not promptly pay the merchants what he owes, on the appointed settling day, all kinds of trouble knows. And when misfortune takes his trail and hands him sundry knocks, and he is shy of dust and kale, of rhino, scads, and rocks, the merchants say: "We cannot sell to gents like you on time, for when you're prospering quite well, you won't cough up a dime." Poor credit all your virtues queers and gives a punk renown, and, though you live a hundred years, you'll never live it down.*

WALT MASON.

# RETAIL CREDITS AND COLLECTIONS

MODERN PRINCIPLES AND PRACTICE

BY

DWIGHT E. BEEBE

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## EDITOR'S PREFACE

IN planning this series of brief working-manuals for retailers, a large number of inquiries were made as to the topics under discussion. It was soon apparent that the problem of granting credits and of making collections was one which concerns every retailer—even including the occasional one who does a strictly cash business—and that it is one of the most difficult of all retail problems. So the present volume has been included among the first of the series.

The point of view is that of the ordinary retailer who wants to handle his credits and collections systematically and yet with the least possible amount of complicated and time-consuming system. The discussion, therefore, can be applied to a store of any size with such slight modifications as are always needed to adjust any system to individual conditions.

The author wishes me to acknowledge the assistance of the many credit men who helped in one way and another, some in planning the book, some in reading part or all of the manuscript, and some in offering special suggestions from their own experience. Among such are Mr. Frank Farrington, editor of *Successful Storekeeping*; Mr. James W. Fisk, Director of the Bureau of Retail Affairs, New Jersey State Chamber of Commerce; Mr. W. E. Balch, Manager Retail Credit Bureau, Indianapolis; Mr. Curtis F. Johnson, president, National Federation Implement and

## EDITOR'S PREFACE

Vehicle Dealers' Association, Rush City, Minnesota; Mr. D. F. Howe, secretary, Utica Chamber of Commerce, and manager, Utica Retail Credit Bureau; Mr. John Magann, credit manager, John Wanamaker's, New York; Mr. Daniel F. Grumley, credit manager, Lord & Taylor, New York; Mr. R. L. Lienhard, credit manager, D. H. Holmes Company, Limited, New Orleans; Mr. Frank L. Miller, manager, New Orleans Retail Credit Men's Association; Mr. H. P. Sheets, secretary, National Retail Hardware Association, Argos, Indiana; and the editors of *Credit World*, the official organ of the Retail Credit Men's National Association.

JOHN B. SWINNEY.

NEW ORLEANS, *February 1, 1918.*

**Part I**

**THE PLACE OF CREDIT IN A RETAIL  
BUSINESS**





# RETAIL CREDITS AND COLLECTIONS

## I

### THE REASON FOR CREDIT

"PLEASE charge it."

Every time he hears this the average merchant begins to think. Will she pay promptly? How long shall I have to wait? Why should I trust her, anyway? After all, does it pay to run a credit business? And more questions of the sort.

Now we might as well clear up matters right at the beginning. Why do most merchants continue to allow charge accounts if such questions arise? For, as we shall see later, except for a few lines, like cut-rate groceries, the practice of doing an entirely cash business is not growing. Merchants continue credit systems for one reason, and one reason only. They continue them because by so doing they can be more successful in business. As long as a credit system is a great convenience to the customer—so much so that it increases the volume of business, and likewise the turnover, in all but cut-rate stores, it will result in enough larger profits to the store to more than make up for its cost and

## RETAIL CREDITS AND COLLECTIONS

any loss entailed. In other words, credit is like advertising or window displays or good store cleanliness and attractiveness. It costs money, but it is a good investment. It pays.

**Difference Between Wholesale and Retail Credit.** Much of the cause of doubt arises from considering retail credit on the basis of wholesale credit. The wholesaler gives credit to the retailer in order that the retailer, by resale of the article, may get back the amount paid and a profit. If the retailer cannot resell, both are involved. The sale to the consumer has no such strings tied to it. Wholesalers give large discounts for cash, because they recognize the greater element of uncertainty in wholesale credits. The present attempt to get retailers to give trade acceptances is another evidence of the same uncertainty regarding the status of wholesale credits. Wholesale credits, again, are different from retail in that they are relatively fewer in number and larger in amount. A department store will have anywhere from fifty thousand to two hundred thousand accounts, while a large jobber will seldom have one-tenth the number. This makes it easier for the retailer to operate like a life-insurance company on the law of averages. Then, too, retail credit is generally personal credit, whereas wholesale credit is firm or corporate credit. It is a well-known fact that personal credit is guarded more zealously than firm or corporate credit. In wholesale credits liquid assets are the big factor to consider. The retail credit man who bases his judgment on liquid assets is inviting poor business and turning down good business. The retail credit man must at the outset realize the fundamental difference between retail and wholesale credit and get the proper basis for retail credits rather than try to operate his credit system like a wholesaler.

In a wholesale business credits are the customary thing. The retailer who buys of a wholesaler is judged according

## THE REASON FOR CREDIT

to his character, his capacity for earning, and his liquid capital. In a retail business the consumer is given credit when such credit-granting may help the retailer's business by increasing the consumer's purchases. Therefore, retail credit is based upon the immediate advantage which such credit-granting will bring to the retailer. If such credit-granting will result in further net profits to the retailer, it is desirable. Liquid assets cannot be a major factor, for consumers are seldom in business for themselves and have no need for liquid capital. Nor is character of prime importance, for there are certain types of customers who buy large amounts at good profits to the retailer, who are not models of character. Yet every large city jeweler or woman's tailor has many such accounts and finds them profitable. So again the standards of wholesale credits are not applicable, but capacity to pay promptly, or eventually, is requisite in either wholesale or retail credits.

The reader must, therefore, avoid being biased by the usual credit standards of a wholesaler. He must find out what makes for success in retailing, how much of this is the resultant of good credits and collections, and then build up retail credit and collection policies and systems on that basis.

**When an Expense Is Not an Expense.** Successful retailing is a difficult job because it depends so much on the ability to satisfy and handle human beings. It is easy to standardize the action of a machine and get the most out of it. But it is very difficult and next to impossible to standardize the activities of people. Else it would be easy to apply the principles of scientific management, which have done so much for factory management, to the operation of a selling organization. So the retailer must study the human beings who compose his clientele and find the motives which lead people to trade in his store. The more such motives he

## RETAIL CREDITS AND COLLECTIONS

can organize to help him, at a cost less than the resulting increase in profits, the more successful a merchant he will be.

For instance, some thirty or forty years ago merchants began to realize, by spending a few dollars for advertising, that they could increase their sales without a proportionate increase in expense, and so increase their net profits. For the same reason stores spend money on window displays and on various other items of so-called expense. But such "expenses" are not "expenses" in the usual sense of the term when they increase the net profits of the store by increasing the volume of business and the turnover. Such expenditures represent an investment in things the store sells, including service.

A credit system is therefore a necessary part of the equipment of all except the cut-rate store, in which the appeal is to the flotsam and jetsam of the community.

**Credit Makes Regular Customers.** Every merchant knows that it is the repeat business which pays best. Those who buy for cash buy wherever they may be, and go from place to place in response to curiosity or attention aroused by the advertising of startling bargains. The credit customer gives her entire trade in a given line to one store. If she does not, a little pressure properly applied can often induce her to do so. She gets to think of the store where she has a charge account as her store. She trades there regularly, comes to know the clerks and the management, and gets better service. The management knows best what her needs are, and in every way the result is to the mutual advantage of both customer and store.

**Credit Sales Average Larger Per Person.** For comparison visit any of the cut-rate, cash-only department stores. The store is filled with bargain-hunters who in their mad scramble muss up large quantities of merchandise and buy very little. The customers are not customers. They are

## THE REASON FOR CREDIT

bargain-hunters. The average sale per person is about half what it is to a charge customer. The result is that the selling expense is vastly increased in the cash store.

**Credit System Develops Confidence in Store.** Every successful merchant is so largely because of the good-will which he has built up. And good-will is the result of confidence. A credit system is a big factor in the building of confidence, because the credit system is predicated on square dealing and repeat sales. The fly-by-night merchant and the merchant of doubtful ethics never give credit. They don't trust their customers, because, being dishonest themselves, they must get their money at the time of sale and hang on to it. The straightforward, square-dealing merchant knows that he is giving value received and he knows that the satisfaction of his customers will lead them to treat him squarely—to pay for the goods as agreed. The I-believe-in-my-goods-and-I-believe-in-you attitude is a wonderful developer of confidence and good-will.

**Credit System Lessens Complaints.** Any merchant knows that a large percentage of complaints results from misunderstanding. "I have been a charge customer here for years and I just knew you were getting the special order for me as fast as you could. So I didn't kick." That is the attitude of the customer who has confidence bred of years of trading. The customer who has paid in advance for the goods gets panicky at the first little delay in delivery or fears that the goods are not right. She starts an unnecessary complaint; at least unnecessary if the cash merchant is honest. She does so because she has no evidence of his good intentions. Every merchant who insists upon cash in advance is, at the moment, classed with the merchant who is dishonorable. For the dishonest merchant never gives credit, and, therefore, by quick converse reasoning, the merchant who insists upon cash is, when something

## RETAIL CREDITS AND COLLECTIONS

appears to have gone wrong, at once thought to be dishonest

**Credit System Makes Better Merchants.** When the merchant gives credit it is because he has faith in his customers. That faith comes from knowing them. Now simply knowing them better makes him better able to serve them. In fact, one of the greatest sources of failure in merchandizing is a lack of knowledge of the needs of one's community. But this faith goes further yet. Having faith in a group of people means being interested in everything having to do with the welfare of that group. Such a merchant is anxious to serve them in the best possible ways. He studies their needs and he does everything in his power to merchandize for them. His faith in his people leads him to his best efforts, for it brings to him a realization of his responsibility as a merchant.

**Credit Customers Understand and Appreciate Being Charge Customers.** Customers realize that merchants instinctively feel this greater obligation to charge customers. In any store having both cash and credit customers the credit customers realize their preferred position. Some cash customers object to it. They feel that, on the contrary, they should have the preference. Perhaps so, as they trust the merchant by paying in advance, whereas he does not show any faith in them. But the credit customer, by arranging for a charge account, confers an honor upon the store by expressing a desire to trade there regularly and concentrate his purchases in that store. So the charge customer is entitled to special consideration over the cash customer who flits from one store to another, hunting bargains and using twice the time of clerks that the charge customer requires.

**Cash Store Attracts Poorest Trade.** A comparison of department stores in any large city will show that the cash

## THE REASON FOR CREDIT

stores attract the cheapest trade and that the credit stores get the best and most satisfactory trade. The result is that cash stores soon become the cheap stores of the town. Nor is it necessary to assume that it is merely a class distinction; for instance, that credit is all right for the best trade, but that in the bargain-basement cash alone must prevail. There are several large city stores maintaining bargain-basements in which a form of credit, adapted to the clientele, is provided. Take, for example, the credit system in Wanamaker's Down-stairs Store. The purely cash store attracts those who cannot get credit, and as fast as they get on a credit basis a large percentage leave the cash store for the store having a credit system.

**Credit System Improves Selling Service.** "I always go to Smith's because the clerks there know me." How many times have you heard that? Now the first source of acquaintanceship is in connection with a charge account. Clerks soon come to know charge customers because they buy more regularly and because they are more at home where they have charge accounts, so that they more readily become acquainted with the clerks. The all-cash store, on the other hand, is a cold and forbidding public warehouse. The clerks are not interested in customers, nor the customers in the store. There is little in the store to attract the customer except price. The tendency of the store is demoralizing and destructive to any attempt at a development of *esprit de corps* in the organization.

**Credit System Connects With Future.** After the bargain-hunter has paid for the article bought at a cash store she is ready to go on another bargain-hunt the next day in a different retail section. She is a creature of impulses, resulting from the day's advertisements. The next day's advertised bargain in Smith's puts out of her mind entirely the bargain she got yesterday in Brown's. The cash mer-

## RETAIL CREDITS AND COLLECTIONS

chant is out of business every night and must start over again the next day.

**Credit a Customary Convenience.** It is always easier and generally more sensible and profitable to row with the current than against it. For generations responsible people have been accustomed to the convenience of a charge system, and he is a wise merchant who hesitates long before discarding the system. Some expect it because their purchases are by various members of the family, while the payments are made only by one person; for such it is a great convenience to have a family account. Some are paid only at considerable intervals—say semi-monthly or monthly—and they buy against the accruing wages. Such people are as a class excellent charge customers. Some have to wait until crops are harvested and sold. Frequently they must wait for a good price before selling, for we all know that if every farmer sold at harvesting-time at harvest-time prices his profit would be very low and markets demoralized.

**Credit Required by Modern Society.** Conditions in life have changed much during the last decade or two, and these changes necessitate corresponding revision of business methods. When a large percentage of people lived in small villages and went to market daily, cash payment was not so difficult. Now women live at a distance from markets and shop by telephone. Many are engaged in some form of occupation. Especially is this true during war-times, when many women have taken men's places and are active daily in Red Cross or other war service. Such women must buy by telephone and depend on the grocer and the department store to deliver the merchandise. Cash payment under such circumstances is very inconvenient. Leaving money with servants to pay bills is demoralizing, for it leads to petty



## THE REASON FOR CREDIT

dishonesty. From every angle of modern life credit service is becoming more and more necessary.

**Credit Makes Home Accounting Easier.** The little dribbets of cash expenditures are the ones that need watching in every household. In the home where all purchases, such as those with the butcher, baker, grocer, department store, and the like, are on a charge-account basis, it is much easier to keep track of the expenses and run the household on a budget basis.

**Does a Charge Account Lead to Extravagance?** Of course it is commonly said that a charge account leads to extravagance. Probably it does in some instances. Yet cash customers frequently buy what they should not. Witness the sales on Saturday night in any factory town. Neither having the cash nor having a charge account is the real motive which leads to a purchase, extravagant or otherwise. Rather it is the attractiveness of the merchandise itself and the way it is advertised and displayed. The customer can only spend what she earns, and the merchant, if he wishes to be a social reformer, can guide her in her selection. One Boston department store, for instance, is urging its customers during the present war-time to buy the more practical garments. They realize that such a step is the real way to prevent extravagance and that any other deterrent is unwise and uncalled for.

On the other hand, credit helps to develop character. Credit standing is a thing which can't be bought. It must be earned. It is the net result of a man's character and ability. Many a young man maintains his start at the crucial moment because he has built up a credit standing with the local tradesmen. When he needs to borrow at the bank his standing in the community resulting from having bought of local stores on credit and having built up a credit standing in the community will insure him a

## RETAIL CREDITS AND COLLECTIONS

favorable hearing at the local bank, even though he may never before have borrowed of the bank.

**Credit Saves Customer's Time.** Every merchant realizes that under the ordinary system of sales checks it takes less time to handle a credit than a cash sale. One store, for instance, supplied credit customers with books of gummed name-and-address labels. The customer hands the clerks a label and is gone. Even if she has to wait while the clerk makes out the name and address, it takes much less time than waiting for change.

Perhaps in the case of a charge-taken purchase, it may seem that a charge is slower than cash. But with a modern telephone authorization system a charge can be handled almost, if not quite, as quickly as the cash sale can be finished and the change returned. In many large stores clerks are empowered to authorize small charge sales and deliver the merchandise without calling in the credit man, floor man, or inspector. Under such a system the charge sale is patently handled more quickly than the cash sale, and if such a system can be operated by a Fifth Avenue department store in New York, there's no question about the feasibility of the plan in a small city or village in which customers are known intimately.

**Credit System Is Cheaper Than C. O. D.** The average merchant does not realize the amount of trouble and labor involved in a C. O. D. transaction. A special system is necessary in the delivery department. In a large store the C. O. D. room frequently requires a half-dozen or more clerks. Add to that the extra trouble to the delivery force in connection with collections and the duplication from the "send overs" resulting from the fact that the customer was not at home, and he begins to realize the expense of C. O. D.'s. Then compare this with the credit system with its simple system of charging and later collecting the money due.

## THE REASON FOR CREDIT

If the customer is at home when the delivery-wagon arrives she has less chance to examine the article and so is less likely to take it than if it were sent on a charge. The driver is in a hurry and cannot wait for her to try on the garment or see how the rug will look beside the old ones; so, being hurried, she sends it back. Haste never was conducive to satisfactory selling.

**Does Credit Add to Store's Expenses?** Yes, undoubtedly from 1 to 2 per cent. on the average for the losses from bad debts and for the expense of credit-granting and making collections. It should not be over one and one-half per cent., and in many stores it is less. When it is more, the fault, however, is due to bad management and not to credit-granting.

But an expense is not a net expense when it brings in more gross profit than it costs. If the credit-granting store can increase its sales through its credit-granting privilege so as to turn stocks more rapidly and make more money, then the credit system is producing rather than dragging and it doesn't matter whether it costs 1 per cent. or 3 per cent.

**Do Cash Customers Pay for Credit Losses?** At first glance, yes. But if the cash customers cause a similar loss to the store by buying a smaller average amount of goods, and by running up heavy expenses for C. O. D. transactions, then it is near enough to an even break to pass by without further discussion. That is the situation in most well-managed department and specialty stores operating both cash and credit systems. Nor does the cash customer get any material saving by going to a strictly cash store, for the cash department store is not operating materially, if any, cheaper than the neighboring charge store catering to the same class of trade.

On the theory of the saving to a cash customer a merchant should price his merchandise by groups of customers.

## RETAIL CREDITS AND COLLECTIONS

It may cost 5 per cent. for clerk's services to sell one customer and 10 per cent. to sell the next one. Should we try to put a cost-keeping, stop-watch system on each sale and make our prices accordingly. It simply isn't feasible; yet the saving of one customer who always shops promptly, never returns the goods, and concentrates all her purchases in one store may be 10 per cent. over the average expense. That would be a real saving as compared with the theoretical saving of 1 to 2 per cent. by eliminating charge accounts. Storekeeping cannot be done on that basis. It must be done as a community service and according to the law of averages. If either the charge or the credit customers, or those of some other classification, such as those who shop promptly and keep what they buy, save 1 or 2 per cent., it must be lumped with the others in the average. And it is quite likely that, when everything is considered, the average cost of serving each customer, charge and credit alike, will be uniform. In fact, in a well-managed store the expense of serving the charge customer is likely to be lower.

**Do Cash Stores Make Lower Prices?** This is looking at the question from the other angle—that of the customer. Cash stores advertise that doing a cash business enables them to make lower prices. To substantiate this they offer "loss leaders" frequently on standard and well-known merchandise. The idea is, "You see, I sell the well-known — shaving-soap, the price of which in other stores is twenty-five cents, for eighteen cents," implying that everything else—known and unknown—is correspondingly priced under the market. A careful comparison of prices will prove the fallacy of this implication. Anyway, merchants are not hunting for chances to start price-cutting. So this argument for a cash system, even if it were valid, would be of little interest except as it may serve as a talking-point for advertising.

## THE REASON FOR CREDIT

If it is not valid, its use is not straightforward, it is next to dishonesty.

**Do Charge Accounts Lead to Special Demands?** This is another objection on the part of the cash merchant. It is hardly worth considering, for it is an acknowledgment on its face that the merchant is afraid his customers will complain of inferior merchandise or of poor service. Occasionally a charge customer will act as if she owned the store. Considerable investigation in department-store adjustment bureaus would lead one to believe that charge accounts do not encourage unreasonable demands. The charge customer, who centralizes purchases, is entitled to a bit more consideration than the bargain-hunter, and if she gets it she is getting only what is due her.

**Do Charge Accounts Tie Up Merchant's Capital?** This is another of the usual objections. Of course it is true to a certain extent. But so does the purchase of merchandise or the investment in advertising or displays. Still, it doesn't matter if by so doing the merchant is enabled to do more business. Whatever use of his capital helps a merchant draw trade and increase his volume and his turnover is legitimate and desirable. If he hasn't enough capital to handle his business properly, then he should raise more capital or give way to some other merchant who can finance himself. The first requisite of a merchant is a suitable capital investment. It is frequently said that the credit system prevents a merchant from discounting his bills. If he has only half enough capital, it is to be expected that he must either do a cash business at first or take all the time he can get on his purchases. Either expediency is unfortunate, but his necessity is to be laid to the inadequacy of his capital.

**Credit System a Cause of Failure.** Undoubtedly this is true, but it is not primarily the cause. In the majority of

## RETAIL CREDITS AND COLLECTIONS

the cases the real cause is either lack of capital, so that the merchant is "operating on a shoe-string," or bad management. In either case the sooner the merchant gives way to a better manager or one better financed the better for himself, his community, and the wholesaler from whom he buys.

**Credit and Years of Panic.** How about the merchant who has considerable amounts out when a panic occurs? We are basing our discussion on thirty-day credits, not six months or indefinite extensions. Panics do not affect consumers on short notice, and the retailer is not obliged to continue credit to those who no longer have a basis for retail credit. So there is really no reason why the merchant need be caught during a panic. If he is caught, he is caught before the panic, because he has allowed long and unbusiness-like credits. This fact is, however, no argument against a credit system.

**Substitutes for Credit.** Some think that credit-granting is a banker's job and that the merchant should avoid it for that reason. They would organize community discount corporations to handle all the credits for all the stores. The plan has many points in its favor, but, like other socialistic schemes, it is not feasible—at least at present, for the American people are too independent and too individualistic to accept it. Their pride would be hurt, just as the retailer's pride to-day is hurt by the demand that he sign trade acceptances for each purchase. In fact, the two systems are practically identical. There is also the common objection to both—that they involve too much clerical work in the case of small and frequent purchases.

Another substitute is the deposit account. One New York cash store is said to have thirty thousand customers who deposit in the private bank which it maintains. Purchases are charged against these deposits. The system has many things in its favor. It suffers from the bad repute of private

## THE REASON FOR CREDIT

banks generally, and particularly from the unpleasant revelations in connection with the bankruptcy of several other private banks in department stores. In the particular store where it has been successful, accounts are solicited only from those who intend to purchase regularly. It has been in operation many years and includes a profit-sharing plan, in that 4 per cent. is paid on balances and 2 per cent. on purchases. The success of the scheme is therefore due largely to the rebate. It involves as much expense as an ordinary charge-account system plus the expense of a banking system under the rigid banking laws of New York State, and in addition it requires a very considerable rebate to keep it going. At once it is apparent that this form of cash system is more expensive than the ordinary credit system, and is very unfair to customers who have no deposit account.

Another substitute is in some form of rebate or trading-stamp. Such systems figure to cost from 2 to 3 per cent. more than the total cost of a charge system, including all the losses for bad debts. They draw some cash business, generally from those who pay cash, anyway, from preference or necessity. They do not draw out cash in advance from bad risks. It takes more than a rebate or premium valued at 2 to 3 per cent. to be really effective with other than those normally cash customers. And of course there is no object in offering it to those who do or must pay cash, anyway, unless the merchant feels that he owes such customers a rebate for paying cash. If the merchant who feels thus would study minutely his costs of doing business he would find that if either cash or credit customers in a well-managed store are entitled to a rebate, it is the credit customer.

**Credit Business Pays.** The merchant is the servant of the community. By granting credit judiciously and collecting as he should he serves his community better than by insisting on a strictly cash business. He runs a better store,

## RETAIL CREDITS AND COLLECTIONS

draws a bigger trade, turns over his stock more promptly, and earns more profit for the store. Quoting Butler Brothers in their *New Way System Book*, which is sent to variety-store retailers who buy of them, "When a store's charge accounts are on a real business basis, when settlement every thirty or sixty days is rigidly insisted upon, a merchant so situated ought to think twice before changing over to a cash system." And a little further on they add, "When a retail credit business is done properly it is one of the most pleasant and resultful things in the store."



## II

### THE PROBLEMS OF THE CREDIT SYSTEM

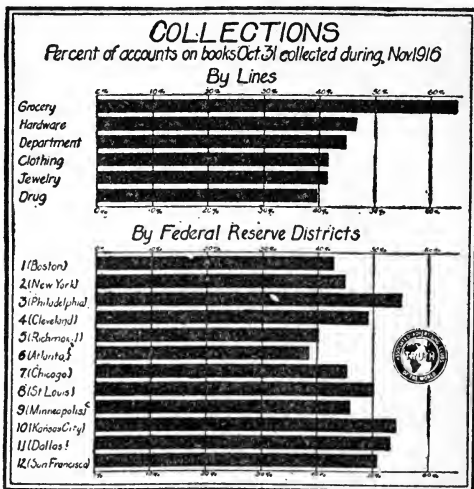
In the preceding chapter the advantages of a credit system were all premised upon the handling of credits on a real business basis and especially upon the insistence that accounts be paid early in each month for all purchases of the preceding month. The success of the credit man is shown in his ability to build trade through a credit system and through the record he makes in his collections.

Therefore, in considering the modern methods of collection and credit work it is well to survey at this point the difficulties in the way, in order that we may build up our credit and collection system with these difficulties constantly in view. In no other way can the treatment of the subject be made practical.

**What a National Investigation of Collection Records Shows.** Now the first question is the one bearing upon the success of merchants generally in collecting promptly. In an effort to get definite data on the percentages of money in accounts outstanding on the books of various retail lines from month to month, the Associated Advertising Clubs of America in 1914 appointed an educational research committee to compile figures from several thousand stores in the various lines of business throughout the United States. These figures are based on the month of November, which is considered an average month. In 1915 and 1916 the same committee conducted the same research on an even more

## RETAIL CREDITS AND COLLECTIONS

exhaustive basis. Chairman Mac Martin of the committee describes the manner in which the data were secured as follows:



Here, at a glance, is the story of collections, by lines and by federal reserve bank districts, showing the percentage of accounts outstanding on the books of retailers October 31, 1916, which were collected during November. The grocer, it will be noted, was the best collector, and the druggist the poorest.

### *How People in Various Parts of the Country Pay*

It will be noted that collections for 1916 showing 46.6 per cent. of outstanding October accounts collected in November failed to indicate an improvement over the figures for 1915—50.7 per cent.

This does not necessarily mean, however, that the retailer extended a bigger line of credit. It means that he was not pushing as hard on collections.

There is an indication, moreover, that the average retailer was more liberal in opening new credit accounts. Since he was more liberal with those already having accounts, he would naturally be more liberal in the other direction, too.

The variation in collections in the several federal reserve districts is partly due to local crop movements. For example, investigators in the Dallas district explained that the unusually

## PROBLEMS OF THE CREDIT SYSTEM

good collections there (53 per cent. of October 31 accounts were paid by the close of November) were due to crop money which came in at this season.

*The Effect of Easy-going Collections.* With sales breaking previous records and not spurred so much by necessity for collecting outstanding accounts, retailers were poorer collectors during November, 1916, than the corresponding month of the year before.

At the end of November, 1916, only 46.6 per cent. of all accounts that had been outstanding at the end of October were collected, while during the same period of 1915, 50.7 per cent. were collected. The map and the table reproduced here do not necessarily mean that the retailers were more liberal in extending credit. There are no returns on that point.

The one question asked was to gain information as to the portion of outstanding accounts which was paid during the month.

It is interesting to observe that the Boston and Chicago districts, with the lowest percentage of collections in 1915, are below average in 1916.

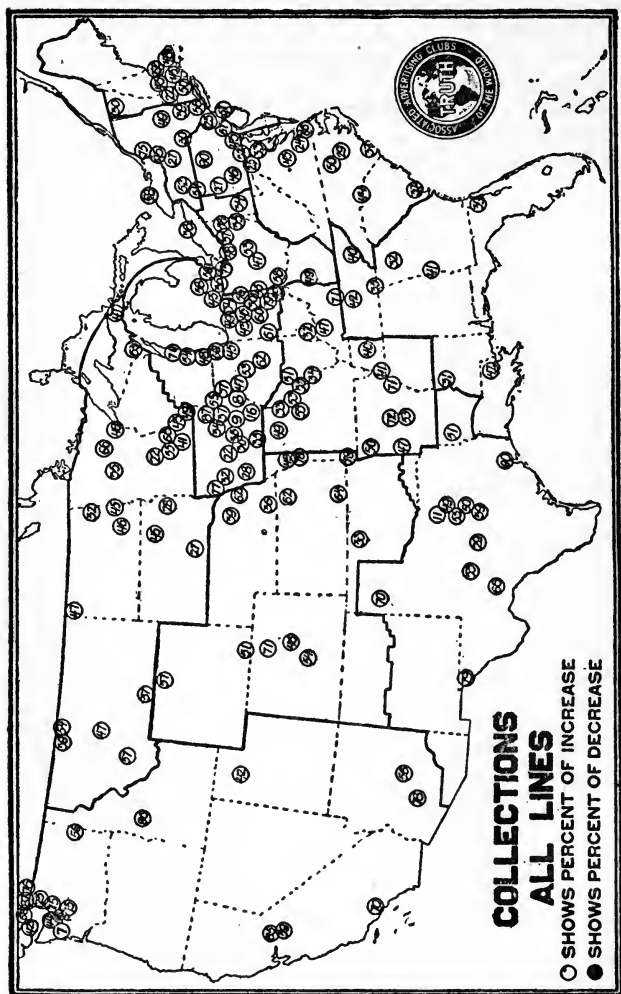
Collections were best in the Philadelphia district, it will be noted.

The amount outstanding on the books of retailers in the several sections of the country at the end of October which had been collected by the end of November, stated in percentage, was as follows:

F. R. D. 1	— Boston	43
" 2	— New York	45
" 3	— Philadelphia	55
" 4	— Cleveland	49
" 5	— Richmond	40
" 6	— Atlanta	38
" 7	— Chicago	45
" 8	— St. Louis	50
" 9	— Minneapolis	46
" 10	— Kansas City	54
" 11	— Dallas	53
" 12	— San Francisco	51
General average		46.6

This information was obtained by 1,700 investigators from the books of retailers in all sections. This is the third year the committee has made an investigation covering the index month of November. The merchants who gave the information did so in

# RETAIL CREDITS AND COLLECTIONS



Each ringed figure on this map represents a city, the figure stating, graphically, the per cent. of all money, outstanding on the books of retailers October 31, which had been collected by the end of November. Collections, on the average, were slower than the previous year. The probable reason for poorer collections was that the retailer, with business booming, did not need money badly.

## PROBLEMS OF THE CREDIT SYSTEM

confidence, after having been assured that no individual names would be mentioned. The investigators were all men of integrity being either members of the educational committee of the Associated Advertising Clubs of the World or secretaries of commercial clubs—men who in their daily business have access to the heads of large organizations, and men who realize the absolute necessity for accuracy in such figures.

Each dealer was asked exactly the same list of questions. Each investigator received exactly the same instructions. In sending in their final reports, investigators often commented upon the accuracy of the answers, saying they knew the dealers personally, and were sure the information was correct. This was the question pertaining to collections. "What percentage of all money in accounts on our books October 31, 1916, was collected during November?"

In order to establish a standard for the entire country for the use of other dealers as well as bankers and credit men of organizations selling to dealers, the committee has asked this same question of all the merchants interviewed.

An average of all reports for the United States showed the retail dealers collected 50.71 per cent. of all accounts on their books at the end of October before the end of November, 1915, and 46.6 per cent. in 1916. In other words, half the average retailers' accounts run more than thirty days.

The average collection of retail accounts outstanding October 31st during the month of November for the various sections of the United States, expressed in percentages, is shown in the chart reproduced here.

*How Retail Lines Collect.* In the six lines investigated the percentages of accounts on retailers' books October 31, 1915 and 1916, which were collected during November, were:

	1915	1916
Grocery stores.....	66.4	64.7
Drug stores.....	51.2	39.5
Department stores.....	50.8	44.7
Clothing stores.....	49.2	41.4
Hardware stores.....	47.1	46.6
Jewelry stores.....	45.3	41.3
General average.....	50.7	46.6

## RETAIL CREDITS AND COLLECTIONS

As might be expected, necessities are paid for first, and luxuries later. It will be noticed that the collection of accounts outstanding do not in any case fall below 39.5 per cent. or rise above 67 per cent.

*Department store Collections.* Department stores of the United States are collecting 50.8 per cent. of the accounts which are on their books at the end of one month or before the next month ends.

There seems to be no marked established areas, except that department stores of the Western states seem to be better collectors than their Eastern brothers.

In these estimates, as said before, the committee has attempted to exclude all cash business; the question relates only to accounts on the books October 31st, which were collected during November, 1915, are as follows:

New England States.....	53
Middle Atlantic States.....	67
South Atlantic States.....	71.1
East-South Central States.....	76.5
West-North Central States.....	63.6
West-South Central States.....	82.6
Mountain States.....	70.8
Pacific States.....	62

*Grocery Collections.* The average grocer in the United States collected during November, 1915, 66.4 per cent. of all the accounts that were outstanding on his books at the end of October. This applied to old accounts as well as those contracted during the month of October.

The figure exceeds the proportion of collections in any other line and exceeds the 50.7 per cent. average for all six lines in the United States 15.7 per cent.

Reports of grocers by geographical sections as to the percentage of accounts due October 31st, which were collected during November, are as follows:

New England States.....	53
Middle Atlantic States.....	67
Southern Atlantic States.....	71.7
East-South Central States.....	76.5
East-North Central States.....	63.5
West-South Central States.....	82.6
Mountain States.....	70.8
Pacific States.....	62

## PROBLEMS OF THE CREDIT SYSTEM

The dangerous credit risk which has long been recognized in the grocery trade must, therefore, be caused by factors other than the retarded collection of accounts.

*Clothing-store Collections.* "What portion of your accounts outstanding at the end of October, 1915, were collected by the end of November?"—that question was asked of representative dealers in men's clothing everywhere, and some interesting facts came from the question.

It should be borne in mind that the same general results should obtain as to collections in a number of other lines.

The results showed that in 1915 the average clothing-store collected 49.2 per cent. of its outstanding accounts during the month following.

It must be borne in mind that collections by the clothing, jewelry, and hardware merchants, on account of the size of the bills, would probably vary more than those of the grocer.

Canadian clothing-stores in the few cities investigated report 40 per cent.

In connection with this report of the state of collections, it should be borne in mind, also, that the clothing trade reported collection six points above normal in the various cities into which the investigation reached. The combination of the two results should give credit men a clearer impression of what standard clothing-store collections are.

The question as to the outstanding accounts collected included all accounts, whether contracted during October or not. The reports by clothing-stores of the percentage of money on their books October 31, 1915, which was collected during November, is as follows:

New England States.....	39
Middle Atlantic States.....	43.8
South Atlantic States.....	51.9
East-South Central States.....	41.4
East-North Central States.....	42.3
West-North Central States.....	41.1
West-South Central States.....	62.8
Mountain States.....	54.9
Pacific States.....	46

*Hardware-store Collections.* The typical hardware dealer of the United States had collected 47.1 per cent. of all the money owing him at the end of October, 1915, by the end of November.

## RETAIL CREDITS AND COLLECTIONS

In no general section of the country did hardware collections average as high as 56 per cent., and in no section did they fall lower than 40 per cent. In some cities, as shown by the map, hardware dealers collected as high as 80 per cent. or 90 per cent. of their accounts. In a very few cities hardware dealers collected as low as 20 per cent.

*System Magazine* has reported that the typical hardware dealer's cost of doing business is 19.3 per cent.; his bad debts .4 per cent., and his gross profits for one turnover 32.2 per cent.

Nearly half of the hardware dealer's net profit is made through taking cash discounts regularly. The percentage of accounts outstanding at the end of October which hardware dealers collected in November in the several sections of the country showed the following averages:

New England States.....	43.8
Middle Atlantic States.....	44.8
South Atlantic States.....	51.7
East-South Central States.....	52.9
East-North Central States.....	40.9
West-South Central States.....	53.2
West-North Central States.....	46.1
Mountain States.....	55.1
Pacific States.....	45.7

*Drug-account Collections.* The druggists of the United States collected during November, 1915, 51.2 per cent. of all the money on their charge accounts at the end of October. It must be borne in mind, of course, that a great proportion of the druggist's business is spot cash. Druggists of the different sections of the United States report the average percentage of the total amount of money they had outstanding October 31, 1915, and collected during November as follows:

New England States.....	45.7
Middle Atlantic States.....	59.5
South Atlantic States.....	43.4
East-South Central States.....	61.6
East-North Central States.....	52.8
West-North Central States.....	49.4
West-South Central States.....	58.1
Mountain States.....	43.9
Pacific States.....	53.2



## PROBLEMS OF THE CREDIT SYSTEM

*Jewelry-store Collections.* Leading jewelers of the United States collected 45.3 per cent. of all accounts that were on their books October 31, 1915, during the month of November. Jewelry, considered a luxury, often sold on account, and one of the lines that move comparatively slowly is slowly paid for. A smaller percentage of outstanding accounts at the end of October was collected by the end of November than in any other of the lines investigated.

Nevertheless, it may be a surprise to many to know that jewelers, reporting their collections only slightly in excess of two points over normal, are able to collect more than 45 per cent. of their accounts each month. The percentage of jewelry accounts outstanding at the end of October, which were collected in November, in various sections, was as follows:

New England States.....	34.1
Middle Atlantic States.....	38.8
South Atlantic States.....	37.6
East-South Central States.....	47.7
East-North Central States.....	42.8
West-North Central States.....	45.8
West-South Central States.....	43.2
Mountain States.....	51.2
Pacific States.....	34.2

**What These Figures Show.** It will be recognized at once that these figures are of limited value only and that they may lead one to erroneous conclusions. They show that about half of the charge sales made in October, 1915, were not paid for during November; in other words, that they ran more than thirty days. They do not show how much of the remainder was paid early in December and how much ran more than sixty days. Therefore the figures are not at all conclusive.

In many lines, while credits are supposed to be on a thirty-day basis, it is not thought advisable to follow up closely until accounts are at least forty-five days old. If this is the policy (and that there may be good reason for such policy is not to be doubted), then it is no reflection on the system if many accounts run beyond thirty days.

## RETAIL CREDITS AND COLLECTIONS

But the figures are interesting and valuable in that they show the first weak spot in a credit system—a tendency to laxity in collections, particularly in certain sections and in certain lines, when conditions otherwise are good. The recognition of this tendency will point the need of carefully planned credit and collection policy, and is not a reflection on the majority of merchants who collect promptly. It serves as a warning to those who have not realized the importance of good credit and collection methods.

It is almost inconceivable that so useful a thing as credit should be so abused by the customers of the average retail store. This abuse is due more to lack of system on the part of the merchant than to carelessness on the part of the customer.

As Butler Brothers' *New Way System Book* puts it, "The bad-debt skeleton leers on 90 per cent. of the retailers who do not sell for cash. This is not because the retail credit system is inherently wrong. It is because the average merchant is not careful enough with his credits."

**Losses from Bad Debts.** The price that a retailer must pay for the privilege of offering credit to customers is the loss from bad debts. The report of the investigation quoted in this chapter might have gone further to show what these losses are. It has been estimated that bad debts in the course of a single year send one business man on the rocks every twenty-four hours. These failures cost the country fifty thousand dollars a day. But forbidding as such a loss may seem, it is not an unreasonable amount when compared with the advantages secured in the way of vastly increased volume of business, a large part of it attracted and held through the offer of credit.

Assume that a store is selling one thousand dollars' worth of merchandise a day at a cost of doing business equal to 20 per cent. of these sales, and at a gross profit of 25 per

## PROBLEMS OF THE CREDIT SYSTEM

cent. With an average stock on hand worth thirty thousand dollars at retail, or enough to care for thirty days' sale, the store which has goods charged to customers worth an additional twenty thousand on credit will net a profit of

$$\begin{array}{r} 25 - 20 \\ \hline \end{array} \times 360, \text{ or } 36 \text{ per cent.}$$
$$30 - 20$$

If the store manager allows an increase of goods charged to customers on credit to increase to thirty thousand—thirty days' sales—his net profit will be

$$\begin{array}{r} 25 - 20 \\ \hline \end{array} \times 360, \text{ or } 30 \text{ per cent.} \text{—a drop of 6 per cent.}$$
$$30 - 30$$

**Credit a Merchandizing Problem.** In this way credit is shown to be a problem of merchandizing, just like any other store activity. We have seen that when a store's customers are able and willing to pay for the various conveniences of store service, which include the facilities of a charge account, the merchant must pay the cost in losses from uncollectible accounts, at the same time that he takes fullest advantage of the added convenience of a credit system to increase his profit. His problem then is to maintain a balance between safe credits and a maximum volume of sales.

**What Is a Safe Limit for Bad-debt Losses?** While it is difficult to say what amount of loss can be safely taken as a result of bad debts because of the variation in different lines of trade, it is certain that there are bound to be some losses entailed. Local conditions, trade usage, and a credit policy generous or close are the factors which help to determine.

Careful investigations conducted for the purpose of fixing the amount of reserve in cash to be set aside from sales to

## RETAIL CREDITS AND COLLECTIONS

offset these losses show the following percentages of total net sales of one thousand stores actually written off as worthless:

Furniture.....	1.94
Groceries.....	.47
Clothing.....	.34
Vehicles and implements.....	.33
Hardware.....	.31
Jewelry.....	.21
Dry-goods.....	.21
Department stores.....	.19
Drugs.....	.19
Shoes.....	.10

**An Investigation That Determined the Figures.** The results of such an investigation published in the Bulletin of the Graduate School of Business Administration of Harvard University, on "Management Problems in Retail Shoe-stores," showed losses from bad debts over a period of six years, throughout the United States. In it is given the lowest, the highest, and the common figure. This common figure, being the one found in the largest number of states, is typical for the shoe trade, round which the experiences of all retailers center. It is one that may be used as a standard with which to compare results. All percentages are of net sales.

Group selling low-priced shoes (men's shoes, typical \$3, \$2.50, before the war):

	<i>Lowest</i>	<i>Highest</i>	<i>Common</i>
Losses from bad debts.....	0.0	0.87	0.17

Group selling medium-priced shoes (men's \$3 to \$6, typical \$4; women's \$3.50 to \$7, typical \$5 before the war):

	<i>Lowest</i>	<i>Highest</i>	<i>Common</i>
Losses from bad debts.....	0.0	1.2	0.17

## PROBLEMS OF THE CREDIT SYSTEM

Group selling high-priced shoes (men's \$6 and up, typical \$7; women's \$7 and up, typical \$8 before the war):

	<i>Lowest</i>	<i>Highest</i>	<i>Common</i>
Losses from bad debts . . . . .	0.0	1.34	0.85

Shoe departments of department stores (cities of 3,000 to 700,000):

	<i>Lowest</i>	<i>Highest</i>	<i>Common</i>
Losses from bad debts . . . . .	0.01	0.26	0.1

**Bad-debt Losses the Price Paid for Greater Volume of Business.** It will be seen that the losses written off from uncollectible accounts in a well-managed store run one half of 1 per cent. When compared with the store's expenses for advertising at from 3 to 4 per cent., however, the price paid for additional convenience in the form of credit accommodation offered to its customers and through which the store is able to add materially to its list of regular patrons is good merchandizing. It will bring in more business in proportion and add it more permanently to the store's regular patronage than the expenditure of the same amount in the best advertising that can be written.

**Fixing a Credit Policy That Will Build a Store's Business at Minimum Loss.** With the many undoubted advantages of a well-planned credit and collection system working in a store's interest, on one hand, and a shrewd eye on the unavoidable losses to keep them down to normal, on the other, double emphasis falls on the store's credit policy to make sure that it is carefully planned and wisely administered. To this end attention is directed to one of the most important factors in a credit-granting store's success—determining its credit and collection policies.

### III

#### DETERMINATION OF CREDIT AND COLLECTION POLICIES

"THIRTY days to twelve months." Such was the reply of a number of retailers to the question of credit policy in the survey made by Mr. H. P. Sheets, secretary of the National Retail Hardware Association. Mr. Sheets says, "Of the 1,839 dealers reporting, 374 admit having no regular credit terms, while the majority of others fail to suggest any comprehensive limits. It is the dealer's duty to himself and to his customers to have definite credit terms; to have these terms clearly understood at the time credit is granted, and to insist upon payment at the time agreed."

The survey of the situation is shown in the following chart and is a striking evidence of the result that comes on credit terms and on other factors necessary for successful credit and collection work.

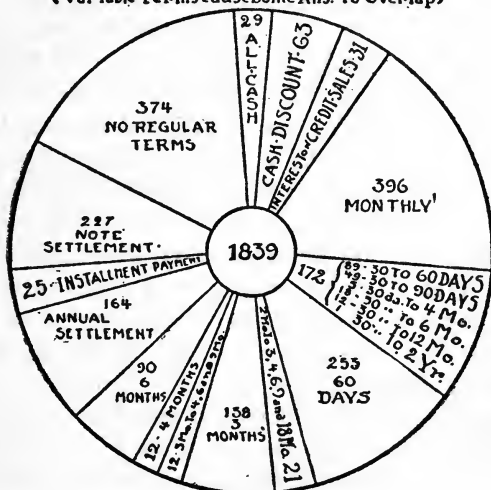
**General Preliminary Considerations.** The credit policy to be adopted for a retailer's business must depend upon a general analysis of the store's trading territory at the time it is opened for business.

In the same way that the proprietor decides upon the quality of goods he can carry to best meet the needs of the neighborhood, the prices its people will expect to pay, or the quality of the store service they will demand, so he must decide certain broad questions relating to his credit policy based upon the needs and expectations of the people on whose patronage the store will depend.

# CREDIT AND COLLECTION POLICIES

The Duty of the Man Deciding Credit Policies to the Community. When considering what credit policy to adopt, the retailer is obliged to consider, first of all, what the individual customer's viewpoint is likely to be toward the moral obligation he assumes when he asks for and accepts

**CREDIT-TERMS**  
 2091 Questionnaires  
 1839 Reporting  
 (Variable Terms Cause Some Ans. To Overlap)



the store's credit accommodation as a part of its service to the community. In a general way, credit is the use we make of morals. It implies mutual confidence in the honesty of the customer, his ability to pay later for a purchase made to-day, and his intention to do so.

The retailer knows that honesty is a very common policy amid surroundings where men can generally be depended upon to meet their obligations if doing so brings no hardship. He realizes also that it is when the payment of an ac-

## RETAIL CREDITS AND COLLECTIONS

count means self-denial and personal sacrifice that men are put to the test.

The man who decides the store's credit policy must feel then that, in addition to his duty toward himself and toward the individual customer whose credit standing he must judge, he has a broader duty as well to the community at large which cannot be ignored. Every man's example helps in some degree to shape his neighbor's creed. While an honest man is an asset to his community, the unreliable man is a liability. If, as is sometimes charged, credit unwisely given has a tendency to encourage over-buying, and if failure to follow up the slow-pay customer reacts unfavorably upon those who never fail to meet an obligation, then it will be seen what a relentless duty there is upon every retailer in the community to grant his credit and collect his accounts promptly.

**Credit Policy in Its Relation to Other Functions of the Business.** When the proprietor of a store organizes his business, raises the capital, and takes the initial risk, his chief consideration is the nature and the extent of the demand for his concern's offering.

Having determined this in a general way and having established the business, he either contrives to carry out the details of the operation himself or he delegates to others, his partners or his subordinates, certain of these functions. His market, its character and requirements, still remains the important factor in operating a retail store as it was in establishing the business originally. If the enterprise succeeds it will have been due largely to the manner in which the store has been able to carry on its relations with people who demand its goods.

The selling function of the business, for this reason, is of first importance because through the sales force it has its chief contact with its customers.



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In the same way, a good collection system is a source of strength in determining the success of the business, but it must meet the public in the guise of an adjuster, rather than a promoter; and as a result the success of the collection force must often depend upon the amount of salvage which can be rescued rather than upon the profit on the account to be made.

The clerks get the trade, the collector gets the money. The force which stands between is the man at the credit desk, who, by his policy, must supply the judgment necessary to keep sales at a maximum and losses at a minimum.

**Credit Policy in Relation to the Character of the Business.**  
In adopting a credit policy for a store, the factors which will help to determine it are: 1. The character of the business. 2. Its size. 3. Local conditions.

It is easy to see, for example, that the credit policy for a retail hardware-store would be based on conditions that would not hold for a retail grocery-store, because of the fundamental differences in the goods offered and in the demand for them.

Every family in the community must establish some kind of a contact with the grocer because of the fact that every one must eat, and the grocery-store is the medium through which the universal demand for foodstuff is ordinarily met.

Since every one in the community of good, bad, or indifferent standing, as far as reliability goes, will patronize the grocer, it will be seen that the question of what policy he will pursue differs from that of the hardware man.

A hardware-store, although no less useful a servant to the community, caters to a less universal patronage—one that is more seasonable and to people who, compared to the average grocery-store patron, are probably better off financially. The house-owner, and not the renter, is the one who ordinarily would be buying kitchen ranges, fireless cookers, re-

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frigerators, and the like. It will be seen at once that, while his per capita sale in the community will probably not be nearly as high for the year's business, the hardware man will probably have better credit risks on his books than the grocer. It follows, then, that his credit policy will differ also.

**Credit Policy in Relation to the Size of the Business.** For the purpose of comparison, take a city department store and compare its credit problem with that of a small specialty-shop, selling to a much more restricted class of trade because of the fact that it has but a comparatively few lines to offer.

It will be readily appreciated that the larger the store, the wider its patronage, the greater the influence and the greater the demand for credit which must be given. It follows, then, that a larger fixed charge can be allotted for the maintenance of efficient credit and collection functions than would be possible for a small store.

The specialty-shop, on the other hand, would probably have comparatively few requests for credit accommodation except in the cases of old and well-known customers of tested standing.

In either case it is easy to understand the effect of size on the credit policy.

**Credit Policy in Relation to Local Conditions.** The proprietor of a shoe-store, opening in a factory community whose customers will be drawn almost entirely from people on a weekly pay-roll, cannot afford to establish credit with individuals except on certain definite limits fixed by their earning power. Neither can he content himself with following the department-store practice of rendering bills monthly. He will render them weekly and follow them closely with a personal collector.

In the same way, the proprietor of a general store serving a farming community, whose revenue is dependent upon the

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returns from sales of produce, will find it necessary to extend longer terms of credit than the city stores which serve a middle-class population working largely on weekly, semi-monthly, and monthly salaries.

**Whom to Accept as Credit Customers.** No country merchant hesitates to extend credit to his farmer neighbor whose growing crops, though still unharvested, give abundant assurance of their owner's ability to pay his bills in due time. In the same way, the small-town retailer or the department store will consider the salaried person whose regular income is sufficient for his wants, and who lives within his means, as one to be trusted. This is especially true if he is the head of a family and as such a permanent member of the community.

People of means, but who may not have present command of their means, are ordinarily entitled to credit. The lumberman who is waiting for the spring thaw to move his logs; the ice dealer who is waiting for hot weather to bring him a market; the contractor who is bringing a job to completion for which he will be paid—these are classes that often need and may safely be given credit.

On the other hand, people of intemperate habits, the gambler, the incompetent, the shiftless, the idler, are necessarily unworthy of credit favors.

A rule that may be safely followed is to put the burden of proof upon the credit-seeker, assuming that, if he wants to obtain the merchant's goods in exchange for a promise of future payment, he should be willing to state on what grounds he bases his expectation of being able to pay at the time agreed upon.

It will be apparent that safety in granting credit depends largely on determining accurately the condition of the applicant to enable the merchant to judge where he is to be classed and whether he is to be trusted or not.

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**Determining Credit Terms.** The exact conditions under which the retailer elects to extend credit will be fixed by the same general considerations which determine the location of his store, the quality of goods he carries, or the store service offered. In other words, his credit terms will depend on the conditions prevailing in his neighborhood.

There was a time, before present-day transportation facilities made it possible for people to travel readily for long distances, when it was not unusual to have settlements yearly or half-yearly. In the same manner, because the sale of crops or manufactured products was not always as sure as it is now, owing to the difficulty of getting goods to market, settlements were often postponed until the sale could be made.

Modern conditions of transportation, together with the almost instant communication possible now by telephone and telegraph, added to the growing need for using capital most effectively, have made thirty-day settlements, and less, the rule.

**How Typical Stores Arrive at Credit Terms.** Out of 1,839 retail hardware dealers who reported to investigators of the *Hardware Trade Survey*, 396 indicated that their customers paid by "monthly settlement," 253 reported terms of settlement of "sixty days," and 227 reported "note settlements."

High-class grocery concerns like Park & Tilford or Charles & Co., New York, catering to customers of means in wide metropolitan and suburban areas, fix terms at thirty days as the most universally acceptable and at the same time the shortest period for settlement.

Factory-town groceries catering to wage-earners largely on weekly pay-rolls naturally fix upon terms weekly to coincide with pay-days. Frequently, in cases of stores operated

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by the one-industry towns of the South and elsewhere, in which the company is virtually itself the storekeeper, the amounts on credit accounts are deducted from the weekly pay.

**Charging Interest on Overdue Accounts.** An effort by retailers to standardize terms, and to prevent losses due to slow collections from mounting, has begun in the movements by the Retail Credit Associations favoring an interest charge on accounts overdue thirty days.

The practice is one that has been only partly adopted, however. By some merchants it is used purely as a penalty, and at rates as high as 10 and 12 per cent. a month.

There are a number of good reasons against the plan. Generally speaking, only such credit methods as are nearly universally in use can be adopted without loss of trade. If all merchants, in all places, would adopt the rule suggested, it would be beneficial. But in the case of small accounts, the monthly interest charges would not pay the expense incurred; many customers would ignore or forget it, as they remit by check, with the original bill, and pay little or no attention to statements.

Again, it would savor of usury and pecuniousness. Customers having large accounts, paid regularly, would resent such a charge if their bills happened to run over the thirty-day period, an instance often due to absence from home, illness, death, and the like.

The best trade is the most sensitive. Some credit men are apt to think only of getting the money, and lose sight of the fact that it costs money to get the customer.

As in the case of the hardware dealers who make use of the promissory note for the adjustment of overdue accounts, many other lines may find that the reasonable request for a promissory note often brings the check, and if payment is

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not immediately convenient it gives to the customer the comfortable feeling that the day of payment may be agreeably postponed to a certain time, when payment "with interest" will be made at the convenience of the customer. It is as easy to carry the amount in bills receivable as in accounts receivable, and eliminates useless friction and even loss of good business.

**Determining Collection Policies.** The test of a successful collection policy is one that gets what is due the store and yet keeps its customers. Collecting money is like selling goods. It involves the knowledge of human nature in general and a knowledge of the individual debtor and the ability to select the method that works best with people of his circumstances.

A grocer who insisted on collecting his bills on the 1st and the 15th of each month noticed that one of his new customers was two weeks in arrears. So he wrote the customer, reminding him very curtly that his account was running entirely too high and must be settled, because the policy of the store was that bills must be paid promptly on the 1st and the 15th. A check came by return mail, but the grocer never sold that family five cents' worth of merchandise again. The fact was that the customer's wife had been called away from home by the sickness of a relative. Her departure was sudden. The maid she left in charge of the house was not instructed to pay the grocery bill. Later the grocer learned that the customer's financial standing was even better than his own. If he had investigated before writing the letter, of course he would not have written it.

**Depending on Letters to Collect.** The mail offers so convenient a medium through which to present bills and statements of accounts due, and for talking with customers about accounts past due, that letters with inclosures naturally are depended upon to perform most of the work of

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collecting. The use of the mail for this purpose, then, opens up many interesting and important questions of policy that must be carefully worked out if the maximum of results is to follow.

The incident of the grocer who wrote a curt letter without first carefully investigating is only one out of a hundred possibilities that might develop.

The subject of collection letters and how to write them is important enough to deserve a chapter by itself. It will be more fully treated later, but it is well to note here that the policy which governs the collection of a store's accounts should assure: 1. Uniform courtesy. 2. Unfailing promptness. 3. Consideration of the individual facts in the case, if collection letters are to be successful.

**Using Personal Collectors.** The mails may often be supplemented by the service of personal collectors, either the store's own delivery man or others who work independently of the delivery system.

The store's policy will be called upon to determine just how far it can afford to use such services, what their attitude shall be toward customers, how shall their work be supervised so that they will not do more harm than good.

**Should the Store Sue a Customer for a Delinquent Account?** One of the most difficult questions for the retailer to decide, and one which he cannot be blamed for dodging, as he often does, is the question of how far he should go in the forcing of payment of money due him.

In the interests of the community at large and of other merchants as well as himself, he cannot afford to let a notorious dead beat go unmolested and openly ignore a just debt.

Every consideration of justness and fairness would impel a merchant. after making all reasonable efforts to collect

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through friendly methods, to bring such cases to court and exact there a settlement as the penalty for such neglect.

The merchant must, however, consider the effect of such action upon others and possibly upon his business. If his claim is a just one—and no man ought ever to go to law on any other—and free from prejudice, then he should have no fear of results. It is well to remember, however, that the law is always expensive and that it almost always entails a loss of time and a lot of bother, to say nothing of a sacrifice of good-will.

**Where to Get the Basis for Deciding These Questions of Policy.** These are all questions that must be reflected consciously or unconsciously in the policy of the house, and are to be interpreted to the customer in his daily contact with the members of your organization. The answers to such questions are to be found in the customs and habits of doing things that have developed in administering the day-to-day routine of business.

There is a constant contact first with old customers—those who have formed the habit of trading year by year with the house and whose continued custom, more and more valuable, is held during continued satisfaction and good service.

The net showing at the end of the year is directly affected by the fairness with which the buying limits of such customers are watched and the care with which apparent delinquencies are investigated and checked.

As the visible means for putting into practice whatever policy may have been developed by the house, much will depend upon the method of using statements of account, the use of form letters and printed inclosures, or the use of personal collectors.

Scarcely less vital to the concern's credit showing is its policy toward new customers. No matter how perfect it



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may be in its store's service, its merchandise, or its treatment of old and honored patrons, there is constant need of adding new accounts to replace those who may be removed by death, by the constant moving and changing of people and conditions in a locality, by the losses due to delinquency and non-payment of accounts.

And nowadays, when the credit man has come in many stores to take on the functions of a business-builder, this problem of systematically building new accounts to a maximum volume of sales consistent with minimum losses assumes new importance in his work.

He may, by a combination of knowledge already in his possession as credit man with the tact and keenness of a salesman, show a decided addition to the volume of the store's accounts during the year, offsetting all losses for whatever cause.

**Determining Costs and Results.** While the individual merchant's resources determine how much he may safely invest in credit or stock in his customers' homes, the average credit department costs from four-tenths to six-tenths of 1 per cent. of the net charge sales.

This, then, is the price that is ordinarily paid for securing the protection of credit investigation which safeguards sales, and for the service of bringing in the money due, and thus keeping losses down to normal. The merchant who extends credit to his customers as a part of his store's service looks upon the expense of maintaining a credit department as a part of his insurance—a legitimate charge and a necessary expense. He utilizes a part of the knowledge and experience gained through credit work to help steer the selling and advertising departments of the business, in his buying and management problems.

In a well-organized store, the position at the credit desk is far from being the place for a mere subordinate, once re-

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moved from a bookkeeper or a routine cog in the store's machinery.

**Expense Allowance for Maintaining a Credit Office.** One feature of credit work not always understood by the executives of a business is the expense connected with the securing of information and of putting it in shape to be used to advantage in the business. The salary to be paid to the head of such a function of the business, together with the total annual expenditure for information, will often prove to be less than the loss from one account which has been avoided through its service.

The same argument could be applied to the policy of furnishing the credit office with an efficient force to carry on its detail work. The credit man in charge, after all, is paid to use his brains and not his hands.

**Collection Expenses Allowable.** The average cost of operating a credit department, given as from four-tenths to six-tenths of 1 per cent. of net charge sales, includes that portion of the expense devoted to the actual collection of accounts as well as credit investigation for the ordinary retail store.

Except in the cases of stubborn accounts, where the merchant is obliged to call upon the services of the collection department of the local retail credit association, or actually refer claims to an attorney for collection, the cost of collection for accounts need not figure very heavily. Items for postage, printing of statements, bills and letter-heads, clerical help in typing and letter-writing, proportionate charges against the equipment of the credit office, would constitute the chief items.

**Credit Losses Allowable.** Investigation based on close analysis of credit figures from the books of thousands of stores, after allowing for unusual local factors, gives rough standards for gauging retail credits.

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The following percentages of net total sales refer to totals of accounts actually written off as worthless:

Furniture.....	1.94
Groceries.....	.47
Clothing.....	.34
Vehicles and instruments.....	.33
Hardware.....	.31
Jewelry.....	.21
Dry-goods.....	.21
Department stores.....	.19
Drugs.....	.19
Shoes.....	.10
Variety goods.....	no loss

**Statement of Typical Policies.** The president of the National Association of Retail Grocers, drawing from an experience of twenty-five years in the business, has reduced his credit policy to the following eighteen heads:

1. Know your customer before extending credit.
2. Insist upon references and investigate them before extending credit to strangers.
3. When the prospective customer hesitates to give references hesitate in taking the order.
4. Explain that it is necessary to know when to expect payment in order to meet your own bills.
5. Show that by paying your own bills promptly in ten days you are able to sell goods more cheaply, and by paying cash you can often pick up bargains which you can pass on to your customers.
6. Send out promptly your statements every week, every two weeks, or every month, according to the understanding you have with your customers.
7. Insist upon full payment every month, and request your customer to call, or see her personally, before you grant a longer extension of credit.
8. Do not let your customers decide when they want to pay their bills. That's your job.

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9. Remember that the possible loss of a few customers who won't pay promptly is offset by the advantages of prompt payment.
10. Don't be satisfied with merely a financial rating on a customer, but learn something of his character and general reputation.
11. Study your customers and don't trust those who leave a bad impression.
12. Have the courage to say "No." Thousands of merchants have lost thousands of dollars because they would not say "No."
13. Never abandon hope of collecting an old account.
14. Try the method of sending statements only to your surest customers. Use one of your clerks and a bicycle for the collection of all other accounts.
15. Personally examine every uncollected account and have a reason for the failure of your customers to pay promptly.
16. Help to eliminate the "dead beat" by giving careful attention to all requests you receive for credit information.
17. Boost your local credit interchange bureau.
18. Make sure your bookkeeping is accurate; that every charge is made and made correctly. Don't let your customers first discover the error.

### OUTLINE OF A CREDIT AND COLLECTION POLICY FOR A RETAIL STORE

<i>Type of Customers</i>	<i>Action to Be Taken</i>
Regular-paying customers.	Monthly bills, statements, or impersonal reminders.
Small accounts.	Reminder plans.
(a) Too small for follow-up.	Pasters.
(b) Scattered purchasers.	Inclosures.
	Handy payment devices like coin-cards, envelopes, and the like.
Workers on salary.	Monthly statement.
	Prompt letter follow-up.
	Personal collection.
	Hint of taking it up with employer.

# CREDIT AND COLLECTION POLICIES

## *Type of Customers*

Wage-earners.

Guaranteed accounts.

Minors.

Married women.

Men without property.

Dead beats.

Transients or "skips."

Local-trade shifters.

## *Action to Be Taken*

Week-end statements.

Printed follow-ups.

Personal collectors.

Hint of garnishment.

Hints to warn guarantor if not paid.

Refer bills to guarantor.

Locate through local trade co-operation.

Through telephone or moving companies.

Through electric-light and gas companies' lists.

By registered letters and attorneys.

Bring quickly to legal issue.



Part II

ORGANIZATION FOR CREDIT WORK





## IV

### THE CREDIT MAN

Who Is the "Credit Man"? In the average small retail establishment the responsibility of deciding whom to trust will usually be found merged in the proprietor, who is at the same time doing his own buying, deciding problems of advertising, merchandizing, financing, and management.

Under such conditions it is only natural, then, that too often the details of looking after the store's credit is delegated to the store's cashier-bookkeeper.

**How Big a Job Is It?** While it must be allowed that credit authorization may often be only a clerk's job, in many cases the granting or withholding of credit at the right time is a matter calling for a very keen kind of ability. Every one knows how easy it is to sell goods to eager buyers. It should be added that buyers who do not intend to pay for their purchases are always eager. While this class is a hard one with which to deal, another class of buyers consists of those who can be persuaded to order goods for which they intend to, but cannot, pay.

The store proprietor, if he could give his full attention to the task, could draw upon a first-hand knowledge of people and conditions in his community. He knows that success in credit-granting involves an accurate knowledge of local business conditions; a careful selection of risks, through the collection and examination of credit information; constant

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supervision of accounts; prompt collection; and ingenuity in handling the collection of stubborn accounts.

This demands that the credit policy and practice of a business should be under the supervision of one of the ablest men in the store. If the business is large his whole time should be given to the work. He becomes then by force of necessity a specialist in credits.

This plan has, however, disadvantages. The regulation credit man is likely to feel that he must pass upon the credit standing of the buyer in a purely cold-blooded way. He has been taught to believe this through the artificial system of which he is the natural product. This system has taken the function of credit-granting largely out of the hands of the proprietor of the business and placed it in the hands of highly specialized clerks who must, as a rule, very quickly exercise what judgment they have instantly on the facts placed before them.

**Centralizing Responsibility.** For convenience and for strategic reasons, the credit man's desk should be close to the bookkeeper's, and all purposes are best served by having the bookkeeper under his direction and supervision. He should also be given complete charge of the collection of accounts, and the machinery for getting out the bills and statements promptly, since the job of bringing in the money due is the logical and direct purpose of the credit man's activities. Even in stores where the credit and other office work does not take up the entire time of a good man, it is best to have what work there is of this nature delegated specifically to one man, and its importance is such that some responsible member of the concern should be in charge.

**Difficulties of the Work.** The position of the credit officer is one difficult to fill in a highly creditable manner. He is held responsible for all losses from bad debts, and it is his duty to reduce these losses to the lowest practical minimum.

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To do so he must refuse all dangerous credit transactions. At the same time he must not be so free in his refusals as to turn away desirable business. The credit-granter might reduce losses to almost nothing by refusing every order of which there could be any possible doubt, but by so doing he would usually destroy a considerable part of the business and profits of his concern. The credit man, therefore, stands between the two dangers of refusing valuable business, on the one hand, and of accepting doubtful business, on the other. For success he must do neither, and the conducting of his work in such a way as to accept the largest possible amount of business with the smallest practical minimum of losses requires no small amount of judgment and ability.

One writer on credit subjects has suggested the judging of the effectiveness of the work of the credit man from the following points:

1. How much does he lose in bad debts?
2. How much does he lose in orders rejected?
3. How many prospective customers does he turn away from all future sales?
4. How many present customers does he offend or lose?
5. How much of the expense of the sale and advertising efforts does he nullify?

**Personal Attributes.** For the most effective conduct of his work, the credit-granter will find use for the most varied personal attributes. He needs judgment, and he needs to be polite and tactful, both in writing and in speaking. Since the information that he seeks in his conferences with his customers is intimate in nature, the customer is likely to become resentful at the inquiry unless he is handled carefully.

The credit man who can so conduct the interview to secure the required information, while keeping the complete goodwill of the customer, gives proof of high efficiency in his

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work. The same situation exists no less where the transaction is by correspondence.

He must be a good judge of human nature—in fact, at times almost a mind-reader. The personal interview with the customer is his most important source of credit information, and final judgment must turn upon it

The man at the credit desk must be quick of decision. Errors of judgment will necessarily result in some losses. If it secures prompt action when such action is called for, many a loss will be prevented where hesitation would have been fatal.

The credit man must be of even temperament. The man who is all enthusiasm one day, and all pessimism on the next, will give his work the bias of his personal feeling and mental condition, instead of basing them on solid judgment of business conditions.

Much has been said with regard to the intuition developed by the man who handles credits, and it is certainly true that with wide acquaintance and long experience he becomes remarkably accurate in his judgments and decisions.

**Relations With Other Departments.** The credit-granter's work has a very close relation to that of every other department of the business. Unless the head of the firm is in direct charge of the credit function, the head of this department should be given power and authority to rank with that of other department heads, but no more.

Difficulties often arise because the authority given the credit man is not clearly understood by all concerned, with the result that clashes in authority follow.

There are some credit men who believe that their authority should be absolute and that no one of equal rank in the general organization should question the decisions of his department.

The effectiveness of an organization, like that of a win-

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ning team, does not result from placing one man in authority over another, or from defining the limits of each man's powers, as much as it depends upon getting them to work together, harmoniously, for a common purpose.

It is doubtful, for example, whether hard and fast rules could ever be laid down to fix the relations of the credit man and the buyers or department managers. They can be depended upon to reach a good working basis only when each tries to understand the other's viewpoint and appreciates the other's problem. The capable credit man realizes that the real interests of the selling and credit ends of the business are identical. He knows that the success of the house depends upon the profitable sale of merchandise, and he realizes that in the effort to this end the success of every one interested is dependent upon the success of the house itself.

**The Solar Plexus of the Business.** The credit man should be among the first to recognize the necessity of co-operation with all other functions of the business. A spirit of democratic equality and interdependence, rather than an attitude of isolation and superiority, should characterize the work of the credit desk in its relation with the sales. While it may not be quite accurate to think of the credit desk as the brains or thinking part of a business, because it takes brains no less to buy and sell goods and handle the store's people, it is not too much to liken it to the "solar plexus."

In the very nature of things, the credit desk becomes the natural center for registering all the information that will help the business to function properly in serving its patrons. Complaints, requests for adjustments, allowances, because they come up naturally in connection with accounts that are to be paid, find their way to the credit desk. Shortcomings of service, delivery, quality of goods, or shortage of shipments—anything that may be used as a reason for

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not paying an account, must be weighed and adjusted. Where is there in the store's organization one who is more logically the one to handle them than the man at the credit desk?

Since his job is to do all possible to avoid uncertainty—to know without guessing—because that is the only way he can hope to avoid losses, he must see that no injustice is done the customer because of the potential value of his custom, no less than that the house gets a fair deal.

**Credit-granter as Salesman.** From the standpoint of the house, the sale from which its profit comes and on which its life depends is incomplete until the actual payment is made. In the average store it is not unusual to find this complete conception of the sale overlooked.

If one analyzes the work of credit-granter, he will conclude that the qualities which make for his success are the same as those required for a good salesman. Take, for example, his handling of the interview in which the customer makes his application for credit. The credit man must do more than satisfy himself that it will be safe to grant the credit asked. He must "sell" to the applicant the reasonableness of his inquiry made for that purpose. His questions must search out the information on which he will base his decision to trust, but they must not offend nor destroy the wish to buy at the store.

The clerk who has worked hard to make a sale must himself be thoroughly convinced that his work is worse than wasted if his customer is not able to stand the credit man's test.

Nor is the credit man's work done when he has passed upon a customer's credit and actually succeeded in bringing the account to balance after a sale or two. One of the most important functions of his position is to see that his profitable accounts are kept active, that they are not allowed to lapse

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after they have been opened. There are a great many men and women who will apply for credit, and to whom credit is extended, but who, after the account has been opened after several months, will drift away from the store where they have been dealing. Isn't it a part of the credit man's job to investigate the causes of these lapses? The causes will be revealed in his data files. He, better than any other in the store's organization, is in a position to suggest the means to be taken to make these accounts active once more.

**Credit Angle on the Advertising.** Nowadays, when so much thought and money is being spent in the effort to bring people into the store through the use of advertising, it is well to have an idea of the effect of this effort on prospective purchasers as a class.

You have seen advertising copy so direct in style and wording as to invite over-buying. Too much emphasis on bargain savings, extravagance in language, or seeming laxness in the offering of a store's credit, as reflected in the store's announcement, may have the effect of bringing many new applicants for credit, who, because of their weak financial or industrial position, cannot but be refused credit by a conscientious credit man, or who must at best be granted very limited privileges.

The credit man who understands the store's advertising problem, and who is given the opportunity to see its copy before it is published, should be in a position to save much unnecessary loss of time and save the store from unfavorable criticism from well-intentioned but financially weak patrons whose requests for credit have been turned down.

**As a Trade Investigator.** Garver Brothers' store, doing \$600,000 worth of business a year in Strasburg, Ohio, a town of 1,000 population, is typical of the many which are enjoying the patronage not only of the immediate community, but for miles around. They built a most profitable part of their

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business through letters and announcements and circulars mailed throughout an extended section of its surrounding territory. The results from the adoption of such methods are directly in proportion to the quality of the list of names circularized. The credit man, with his equipment at hand for securing dependable information on the financial, economic, or moral standing of individuals in a given territory, may insure the campaign against failure if he is given the chance to investigate before the circularization is begun. Its results cannot but be bettered through his careful classification of prospects, circularizing these for credit and canvassing the others to make them cash customers.

Successful buying to meet the demands of a store's patrons must of course depend upon an accurate knowledge of their tastes. The surest measure of their tastes is the knowledge to be gained from the credit files of the incomes, vocations, and personal characteristics of its customers. The shrewd buyer will not underestimate the value of the credit man's help to make a study of the store's customers.

**Necessary Qualifications.** There isn't a man anywhere in the rank and file of business who is called on for a wider range of knowledge, or who needs a larger store of common sense to apply this knowledge, than the man at the credit desk.

Not a business day of his life passes but the credit man is brought in contact with all the fifty-seven varieties of human nature. He is talking or writing one minute to a touchy, but honest, "slow pay" and the next minute to the crafty, thick-skinned individual who is out to "do the house."

He must handle each of them and hundreds of others with the most delicate strength. He must not make mistakes in judgment. He must know them unerringly and choose his language, expressing himself pointedly and yet tactfully.



## THE CREDIT MAN

His personal interviews with his company's customers must be conducted with all the finesse of a capable salesman. His letters must reveal the persuasive art of a trained correspondent.

This skill in dealing with people, however, is only a part of his equipment. Back of it must lie real sympathy with the customers of his house, and real understanding of their problems.

He cannot afford to guess. He must know what he is talking about. He must, of course, be thoroughly grounded in the technique of his job. That technique, however, includes more than simply the checking of orders; the reading of retail credit association reports, or the blind acceptance of ledger experience as a basis for turning down perfectly good orders taken by the house salesman.

**As a Business Adviser.** The credit man who isn't the best business friend and adviser of his store's customers and its salesmen isn't living up to his job.

Being an analyst and an interpreter of facts and impressions, he has trained himself to accept John Smith's statement of his reasons for asking credit in the light of his own wide experience in business. Because he sees clearly at a glance what is back of each statement John Smith makes, he can put his finger on his weaknesses and through timely suggestion, if the need arises, bring him back to a proper regard for his credit reputation.

Information as to conditions throughout the territory which his house serves keeps pouring in on him. He is rightly expected to keep his eyes open; to watch the spread of business troubles; to forecast restriction or expansion of bank credits. This means that the broad-gauged credit man is a student of economic factors. If he is not, he is likely any day to be caught napping in the path of a financial storm which he should have foreseen.

## RETAIL CREDITS AND COLLECTIONS

No credit man can size up a risk or handle a claim properly if he is seriously deficient in his knowledge of insurance and real estate, of shipping and commercial law.

The worth-while credit man is a big factor in developing business and in guiding it along safe and profitable roads.

For that reason, if for no other, there is no job more likely to produce the top executives of any business. The live man at the credit desk has a wonderful opportunity in fitting himself to handle with greater efficiency the duties of his present job, and to gain the ideal equipment for even larger responsibilities.

## V

### THE FUNCTION OF THE CREDIT-OFFICE ORGANIZATION

**The Office System.** To the man at the credit desk, anything but a sale for cash comes to be looked upon as a gamble. The only way to influence the odds in favor of the house is in handling the credit sales so that the uncertainty of payment may be reduced to a minimum after it is made by securing reliable information on which to base a credit decision before approving the order.

Back of the store's credit-granting authority there must be a "system"—an organization in the credit office, simple, accurate, and nearly automatic—for gathering credit information and using it to check the judgment of the man in charge. The function of the credit-office organization is to carry on the routine work of gathering, verifying, and recording information. To the extent that the man in charge can plan for the handling of this mass of details and then develop assistants to relieve him of the burden of taking care of them, he will have time to give to the really important decisions requiring the best there is in him and on which his success or failure and that of the business may depend.

**Details Are Important.** And right here it should be noted that attention to detail in the records of the credit end of a business may be overdone. When detail becomes a mania, larger and more important things may be lost sight of. On the other hand, an insignificant detail may be so magnified

## RETAIL CREDITS AND COLLECTIONS

as to unduly prejudice one's judgment of a risk. Little things sometimes loom large as side-lights.

Take an actual case. A man living in a large town where street addresses are necessary succeeded in running up a large bill at a grocery-store, and then suddenly left town without leaving any trace. When attempts were made through the local credit agency to find him, it was discovered that during all the time he was trading at the store his name had been spelled incorrectly. Letters addressed to the name on the store's records hadn't a chance of being delivered and possibly he had never even received a bill. In another instance a customer of four years' standing at a certain store received fully fifty monthly bills, but not one of them had been sent to the correct address. The bookkeeper got the address wrong in sending out the first bill and kept it up afterward. The alert postman on that route discovered the error, and so the bills reached their destination each time, but if the store had lost through the customer's wish to evade payment, who would have been to blame?

Clerical mistakes, due nearly always to the carelessness of the clerks, are common in all stores, big or little, but they always cost money.

**Need for Centralized Responsibility.** As a first principle for the proper organization of an office for credit work the man in whom is placed the responsibility for results must be given complete and unquestioned control in all matters relating to the credit-and-collection end of the business.

If those who assist the credit man are really to shoulder the burden of detail and make themselves an effective part of his office machine, it goes without saying they must know the concern's business thoroughly—its policy and the methods used to put this policy into practice.

**What the Office System Should Provide.** Any system for the credit office, to be adequate, should include:

## FUNCTION OF CREDIT-OFFICE ORGANIZATION

1. Facilities for getting and filing all credit information in such a way that it will be instantly available for reference by authorizers.
2. Facilities for quickly noting changes of condition, address, and the like, with a view to keeping the files always corrected up to the minute.
3. A system of recording these data on cards in the files so that the latest information will always be available for quick reference.
4. An automatic danger signal to check overbuying of doubtful or dangerous risks.
5. A definite means of keeping the "promotion" or new business department constantly informed of new addresses, deaths and like changes which would affect the mailing-lists.

**The Backbone of the Credit Organization Is Its Files.** Since the credit office deals in information, it follows that its files are the backbone of its system. The methods used to add names to the store's files of credit customers and to keep accurate record of the constant changes in their files, vary widely in detail, according to the line of business and the type of store, but conform fairly closely in general principles.

The system used by one large New York department store will perhaps serve best to show in a general way what is good practice. In this particular store the system of the credit office is based upon abnormal transactions. With many thousands of accounts to handle, no department system would attempt to keep close supervision over the records of each individual account, and keep up with the demands upon it, especially since nine out of ten accounts might never call for such attention. As a matter of fact, it may be assumed that it is the tenth account where a change of condition does occur that needs watching, so that time and effort are saved and true efficiency is best served when the system is directed to keeping tabs on the unusual or "abnormal" rather than upon the normal accounts.

## RETAIL CREDITS AND COLLECTIONS

**One Form for Many Uses.** The system for keeping record of the credit data of the customer is a single form made out in triplicate by the store's credit man, which serves any one of the following seven standard contingencies:

1. Customer's change of address.
2. Change of name (that is through marriage of unmarried women customers or death of the husband).
3. Opening new accounts.
4. Closing accounts.
5. Change from charge to cash.
6. Death.
7. Fixing or changing credit limit.

Each copy of this form, which is known as the "customer's account change notice," is made up in triplicate, padded, and numbered serially. The original provides spaces for the date and the credit-file number which is given each account as soon as it is opened and placed on the books, and by which it is always designated after that in all the store's records.

This form further provides spaces for the following information:

New name.  
New address.  
Business address.  
Name of husband, if living.  
Name of wife, if living.  
Former name.  
Former address.  
Credit limits—old and new.

Then at the bottom is provided memorandum space as follows:

Sent to Visible Index Writer — date — by —  
Sent to Delivery Authorizer with or without Visible Index Card —  
Old Visible Index corrected — Replaced —

# FUNCTION OF CREDIT-OFFICE ORGANIZATION

## APPLICATION FOR ACCOUNT

DATE \_\_\_\_\_ 191

RATINGS \_\_\_\_\_

LIMIT \_\_\_\_\_

REPORT No. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

PLEASE OPEN AN ACCOUNT ON YOUR BOOKS AS FOLLOWS:

NAME \_\_\_\_\_

ADDRESS \_\_\_\_\_

BUSINESS \_\_\_\_\_

ADDRESS \_\_\_\_\_

NOW HAVE ACCOUNTS AS FOLLOWS:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

REFERENCES: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

I OWN REAL ESTATE VALUED AT \$ \_\_\_\_\_ AS FOLLOWS

\_\_\_\_\_

\_\_\_\_\_

ENCUMBRANCES: \_\_\_\_\_

I MAKE THE ABOVE STATEMENT FOR THE PURPOSE OF OBTAINING CREDIT ON YOUR  
TERMS, WHICH I UNDERSTAND TO BE MONTHLY SETTLEMENTS.

SIGNATURE \_\_\_\_\_

\_\_\_\_\_

APPROVED

CUSTOMER NOTIFIED

## RETAIL CREDITS AND COLLECTIONS

**How the Form Is Used. New Accounts.** This original form, unless it covers an application for a new account, is referred to the telephone authorizer, who notes on it the credit-office file number and at the same time corrects the visible index, in which customers' names are displayed for daily reference, if the change does not require the making of a new slip for the index file.

In the case of an application for a new account after the desired credit information has been requested on the application form which is reproduced here, it is sent direct to a stenographer, who assigns the credit-file number and at the same time types a card bearing this number and the customer's name for the master-index file. This index card is held in a hold-file box alphabetically arranged to wait until the customer's credit limit has been fixed. Then it is filed in a permanent place in the alphabetical master-index file of the department.

The stenographer makes up from the original application the customer's account-change notice in triplicate, one a credit office copy, another for the bookkeeper, and the third for the promotion and addressograph bureau, noting the credit-file number and the bureau number on the notice. These notices are distributed before 10 A.M. the following morning.

**When Changes Are to Be Made in the Files.** If the change does not require the making of a new slip for the visible index, the original of this change notice is sent to the delivery authorizers, the duplicate to the ledger clerk, who enters accounts receivable, and the triplicate to the head of the addressograph bureau. At the same time the original form is placed in an alphabetical hold-file in the credit office, where it remains until the corresponding copies have been audited, after which it is sent to the credit files to be placed in a folder or jacket with other papers relating to the account.



FUNCTION OF CREDIT-OFFICE ORGANIZATION

EN 7.

**LIMIT NOTICE**

DATE.....

NAME .....

ADDRESS.....

AMOUNT                      AMOUNT OF  
OF LIMIT.....,      ACCOUNT.....

PURCHASES BY MONTH  
MAKING UP PRESENT INDEBTEDNESS

JAN'Y..... MAY..... SEPT .....

FEB'Y..... JUNE..... OCT .....

MAR..... JULY..... NOV .....

APR..... AUG..... DEC .....

**LAST PAYMENT**

DATE..... AM'T .....

## RETAIL CREDITS AND COLLECTIONS

If the change notice requires the making of a new visible index slip, the original is sent to the visible index writer. These index slips are typed in duplicate, and then sent, respectively, to the telephone and delivery authorizers, who post them immediately for reference.

It will be seen that this system is based on the principle that it is expensive and unnecessary in the handling of thousands of accounts to provide for periodical rechecking of each account unless something like a change of condition develops to affect its paying quality. It realizes that only a comparatively few accounts will change condition from day to day. It provides a way to account for abnormal changes only, and to report these abnormal changes automatically and surely, making certain that all department records are changed.

**How the Bookkeepers Help.** For example, the bookkeepers, having been notified of the limits set on every account opened, will report on a limit notice form like the one shown here, the cases where a customer's purchases have exceeded the limit fixed. Based on this notice, the credit man will be warned either to shut down or extend limits, as the case may be, but the point is that he has the benefit of such a notice coming automatically from the store's accounting records, where it can best be kept, and without the necessity of himself going to a lot of trouble to secure this information direct.

Very often if the customer's purchases in such a case have exceeded the limit because he has ordered furniture or some such class of merchandise, he will pass the credit, but will close the account until some payment is made.

The collection routine and follow-up usually are under the credit office's supervision. In any event, the collection department should make it a point to check outstanding accounts each month and report to the credit office the names

## FUNCTION OF CREDIT-OFFICE ORGANIZATION

of all customers in arrears. In this way, also, a warning is given against further credit to doubtful customers.

**Investigation of New Accounts.** Within twenty-four hours following the interview at which permission to open an account is sought, letters are written and posted to all out-of-town references given.

At the same time credit reports are requested from the local credit bureaus or agencies, so that the results of their ratings may be available at about the same time that replies are received to letters of inquiry and investigators' reports are turned in.

Then, with information available from all immediate sources, the decision whether to accept or reject the account can be made.

**Where the Credit Office System Helps or Hinders Service to Customers.** In these days of keen competition, when every retail store is catering especially to feminine approval and when every conceivable line of merchandise of interest to women is found upon its shelves, the store has a special interest to encourage the opening of charge accounts with the right kind of people.

As long as the customer pays cash for her purchases she is free to flit from store to store, as her fancy directs. The store has no hold so strong as the convenience of a charge account to keep her patronage, but the hold on the charge customer is effective only as she is well served by the store. The customer seeking an account at a retail establishment expects the best of service, the most courteous treatment at all times. The reputation for service rendered therefore gradually binds its satisfied charge customers to the store until they become a real part of it. So long as they continue to be satisfied with the service given, it is difficult for a competitor to lure them away.

Convenience, then, and courteous treatment, with un-

## RETAIL CREDITS AND COLLECTIONS

failing promptness and reliability, all of which may be described as store service, are of the first importance.

This favorable impression, if it is to be lasting, must be registered with all possible conviction on the mind of the credit-seeker from the moment of the first interview at the credit desk.

**The Place for Credit Interviews.** One of the important details that must not be overlooked, then, is to provide a suitable place for holding these interviews with applicants for credit. Since in most cases the questions asked and the answers given are distinctly personal and confidential in nature, the credit man should not expect his applicant to talk frankly in the hearing of others in the office.

In order that the applicant may feel perfectly at ease, therefore, the credit desk should be placed well apart and out of earshot from any one else in the office. In the best-appointed stores considerable care is given to the equipment and arrangement of such offices. The fittings are invariably of the best. An air of quiet, cheerful, refinement usually pervades the place. The desk at which the credit arbiter presides is usually a flat-top set in the center of the room or alcove, with a single chair for the applicant during the interview.

Such interviews are never to be interrupted by the store's employees, in order that there may be nothing to disturb the exchange of confidence between applicant and credit man, who is thus given the best possible opportunity of sizing up the risk.

Many stores maintain that the credit man should go to the customer and talk with her in the department where she is making her first purchases. The credit man can call the customer aside for an interview.

**The O. K. Telephone System.** Since the store's reputation for speed and accuracy in handling customers with

## FUNCTION OF CREDIT-OFFICE ORGANIZATION

charge accounts depends upon its ability to check and authorize purchases quickly, it follows that the equipment of the credit office extends beyond its four walls, throughout the store, in the form of communicating and checking devices which make up what is sometimes a most elaborate but no less necessary part of the store's service.

In departments where purchases charged and taken away by the customers are likely to be most common, such as the notion department, the men's furnishings, the candy department, and the baking department, the O. K. telephone system has proved invaluable because it helps to cut down waits and delays.

In using this system the salesperson places the charge check in an electrically operated device with telephone connection, and calls the credit-authorizer, to whom she gives the name, address, by whom purchased, and the account of the charge. If the account is open, the operator pushes a button on the switchboard which authorizes the sales check, in the department where the purchase is made. Not over three or four seconds should elapse for this conversation. At once the package is given to the customer, who marvels at the despatch of the transaction and appreciates the service rendered.

Another method of handling the charge-check is by pneumatic tube. The switchboard for the O. K. telephone system is located in the same room with the tube terminals, so that all sales checks are authorized at one central point. The service possible with the dual system is doubly effective and goes a long way to please the customer.

**The Pneumatic-tube System.** A pneumatic-tube system, except for cash registers at patterns, notions, men's furnishings, and hardware departments, is also quite generally favored. Cash sales are carried in gray-capped purses which are opened and handled in a basement tube-room.

## RETAIL CREDITS AND COLLECTIONS

Charge sales are carried in red-capped purses which are relayed in the basement tube-room to the credit desk in the main office; or there may be a credit desk in the tube-room.

Bank checks, within certain limits, are approved by floor-men and department managers. Checks not so approved are sent with sales checks, *via* the tube-room, to the mail-office, in red-capped purses. A rubber band around this purse on its return journey signals the tube-room cashier to open this purse, handle sales check, and forward with change, if any, to the clerk.

**Relation of Bookkeeping to Credit Office.** Every precaution is taken in developing the business of a well-directed store to gain a greater protection against mistakes by the store's people. To get the highest degree of accuracy, speed is necessarily retarded. Good results are increased accordingly as the possibility of errors is eliminated.

The greatest source of errors is in the bookkeeping. As a result, many merchants feel that the store's bookkeepers should rightly be controlled from the credit desk. This is probably true to the extent of prescribing the procedure to be followed in sending out bills or statements on customers' accounts, rendering reports of an accounting nature, to show results of collection efforts, and to speed up the work of entering charges and crediting remittances, so that the exact condition of all customers' accounts may be always accurately known.

Accuracy and speed in the store's bookkeeping are so vital to good credit-and-collection work that the whole system of keeping customers' ledgers may be considered part of credit-office machinery.

**Using Bookkeeping Machines.** Thanks are due to the bookkeeping machines which in the last few years have rendered great help through increased speed and accuracy. They are combinations of typewriter and computing ma-

## FUNCTION OF CREDIT-OFFICE ORGANIZATION

chines, and have been brought to such state of perfection that they seem to have almost the power to think. These machines, though comparatively new, are quite generally in use in the larger cities. Some not only typewrite and add, but subtract, multiply, divide, figure discount, automatically transfer totals from one column to another, consolidate different sub-totals into a grand total, and compute common and decimal fractions.

There are now seven machines generally in use for this work. The Moon-Hopkins, Underwood, Elliott-Fisher, Remington, Ellis, Burroughs, and Wales. The first four are combination typewriter and computing machines and may be used for either bookkeeping or billing or both, while the Burroughs and Wales are computing machines only, and can, therefore, only be used for keeping the ledgers, as they have no typewriter attachment for itemizing the bills.

**Posting by Machine.** The modern credit office uses one of two fundamental systems: First, posting to the ledger and billing separately from the ledger; and, second, the making of the bill and ledger entry in one operation. The first mentioned is the older and the one more commonly in use. The larger stores of Chicago and St. Louis are using this plan. While this is a strong argument in favor of system number one, it is not conclusive that it is the best. Advocates of it will tell you that it affords greater protection against posting to the wrong account; they say, also, that it is more simple, thereby making it possible to employ less expensive help, which is easier to get. They also claim that it enables them to get out a bill that is simpler and easier for the customer to understand, and that it is not necessary to carry forward the previous month's balance, provided it has been paid, which is necessary in system number two. Many customers object to this carrying forward of the balance, but advocates of system number two claim that customers

## RETAIL CREDITS AND COLLECTIONS

can be educated to understand this form of bill as readily as one built on system number one.

Advocates of the second plan claim greater economy for it, as they are able to make both the ledger entry and bill at one operation; they also maintain that the bill can be rendered more quickly at the end of the month, as it is finished and proved at the time of the last entry—thus enabling them to tear off the bill and mail it without having to be reconciled with the ledger, as under the first plan. There is no question that this feature offers a decided advantage.

The next question to be considered is which machine to use. It is a difficult decision to make, for each has its advantages over the others. None seems to stand out prominently above the others for each class of work, and opinion, as is indicated by the variety of machines in use, seems to be about evenly divided. One large Chicago store uses the Moon-Hopkins for bookkeeping and Elliott-Fisher for billing. Another uses the Underwood for bookkeeping and also for billing. Still another uses the Underwood for bookkeeping and the Remington for billing.

**The Office Force.** It need scarcely be said that the successful conduct of the credit office requires that it shall have a head who must be manager in fact as well as in name, and whose personality, while dominating the office, does not domineer over it.

The assistants should respect the head, and his treatment of them should be such as to merit respect. The decisions of the manager must be final, his judgment deferred to, and the results accepted as fixed. The same carefulness which has been exercised in fixing the credit policy and in picking the man to execute the policy should be shown in the choice of his assistants, in order to bring the entire force up to the same high plane.

In dealing with his assistants the man in charge of a



**NEW ORLEANS RETAILERS CREDIT BUREAU**

### CREDIT BUREAU REPORT

[illegible]

APPROVED  
CREDIT OFFICE \_\_\_\_\_

## RETAIL CREDITS AND COLLECTIONS

store's credit work should encourage them to independent thought and action. The more efficient he can make them as thinking elements the more detail he can shift to their shoulders, thereby lessening his own burdens and leaving his mind free for more important problems. It is a great help to the one in charge to be able to discuss with his assistants the customers and their accounts, and in this way awaken interest and pride in the success of the department. The courteous and liberal attitude of the credit man toward the customer should be the attitude of the office force. The customers have a right to demand this consideration from the office force when they might not look for so much from the head of the department.

The man in charge cannot possibly be in the office every minute, but his work must go on continuously, and if his assistants are properly trained in the policy of the house they will be able to assume responsibility when he is absent.

**Forms and Blanks.** The forms and blanks used in the credit office should be as few and as simple as possible. The mistake should not be made of using a form of credit application, for example, with too long a list of questions to be answered. Eighty-six stores, members of the New Orleans Retailers' Credit Bureau, use a simple form like the one reproduced here.

Proper forms should be available for investigations among the trade and through banks, employer's personal references, landlords, and like sources. Typewritten form letters will do, but printed blanks are preferable because they can be handled more quickly and the answer filled in more easily. With the blanks designed to be sent to others in the trade, the object is to obtain a brief record of ledger experience and whatever information the answering credit man may volunteer with the least trouble to the person from whom the request is made.

## VI

### CO-OPERATIVE METHODS IN CREDIT INVESTIGATION

THE files of a certain collection agency in a Middle Western city contained, in 1910, the name of a credit buyer owing a clothing-house thirty-five dollars. This man held quite a responsible railroad position, was single, and commanded a salary which should have been sufficient for his needs. Within less than a year after that, six other clothing accounts passed through the same files with the same man as debtor.

In 1914, after a local credit bureau had been organized and the same debtor's past record came to be written up for the purpose of fixing his credit standing, he presented himself to his next victim, only to be turned down, and was made to realize that he would have to mend his ways or move on. The services of the bureau has resulted in an almost complete elimination of professional dead beats in this community.

In some sections retailers offering credit still eye one another with distrust and refuse to divulge any ledger information, and at times even give false ledger information. In such localities co-operation among credit-granters means nothing.

There the professional "hard pay" has a comparatively easy time of it. With the assistance of some over-zealous

## RETAIL CREDITS AND COLLECTIONS

clerk he is always well dressed at the expense of the credit-granter, who had no way of getting his past paying record from the other stores or from a bureau organized for the interchange of such information among the merchants of the district.

**Origin of Credit Information Service.** The movement toward co-operative methods in connection with the granting of retail credit is comparatively recent.

Profiting by the experience of wholesalers who were the first to organize co-operatively for a closer interchange of information, it is not uncommon practice now among retailers in a community to organize themselves into associations and bureaus, national and local, for the purpose of exchanging information obtained from members' ledgers.

**Began With Needs of Wholesalers.** The excellent service rendered by the large mercantile agencies, like Dun's and Bradstreet's, through their facilities for reporting on applicants for credit, has served to show what can be done in the way of gathering information and making it useful for credit purposes.

Through offices located in all the important cities of the country where information is collected, the wholesaler, the manufacturer, and, to a more limited degree, the retailer, whose market is extended beyond a local area, may, for the payment of a yearly fee, secure prompt and accurate information, including a record of the business and personal character of their customers who apply for credit.

**Why Not Dun's or Bradstreet's for Retailers?** The retailer has more need for an accurate source of information of the same kind on his customers than the wholesaler, but he has been obliged to build up his own means of supplying it. This has been necessary because in most cases his market is local, rarely extending beyond the immediate neighborhood,

## CO-OPERATIVE CREDIT INVESTIGATIONS

and because he deals with individuals, while the mercantile agencies are national in their scope and report almost exclusively on firms or corporations.

**What Retailers Need—an Exchange of Ledger Experience.** The main element which is lacking in the service of the national agencies, however, and the one which is most needed for the retailer, is not the applicant's own statement of his condition and fitness to receive credit offered by him, but some means of learning from other retailers in the same local market what actual experience they have had with the same prospective customer—his paying habits.

**The Development of Retailers' Co-operative Credit and Collection Bureaus.** Fifteen or twenty years ago, credit exchange bureaus were unknown in the conduct of retail credit business. When application was made for credit, the merchant generally relied upon what he knew of the applicant, or what he thought he knew of him, in extending credit. It is true that there were in existence privately owned rating companies who gathered such information as they could and published rating-books, giving their opinions of the individual's credit standing.

In many cases the information was old, and so vague or incomplete as to be of little value. However, credit was not as freely sought in those days as it is now. A stranger seldom approached a merchant for credit, and at least 70 per cent. of the business done by a store was for cash. Hence there was not the same need for up-to-the-minute credit information that there is to-day.

When a customer once established credit with a store he did all his trading there, thus giving the merchant a chance to judge his ability to pay the account. Now he has accounts in various places, and while he may not exceed the amount he would be entitled to receive in one place, in the aggregate he may go far in excess of his ability to pay.

## RETAIL CREDITS AND COLLECTIONS

Changed conditions, advertising, and modern ways of doing business have complicated the problems of to-day. Merchants begin to realize the necessity of meeting them, and the conviction grows that it could best be done by co-operation.

**What Co-operative Bureaus Aim to Do.** At first, merchants were skeptical of the plan and of one another, feeling that some one might obtain undue advantage over other members. With the real test of use, however, the plan worked well, and members soon realized the value of a record of credit customers of the city which they knew to be based on facts, with guesswork entirely eliminated.

The purpose of the interchange system is:

1. To provide an impartial medium between debtors and creditors and between creditors themselves.

2. To establish a system whereby those who are interested in any accounts may freely and unreservedly interchange the facts contained in their ledgers without the necessity of direct reference, each to the other, and without divulging their information under their own name.

3. At all times to receive in exchange for items contributed by them the combined experience of all the others interested in the account.

Ledger experience differs materially from the information supplied by the ordinary credit agency, for the interchange does not concern itself with antecedents or with the debtor's character or reputation. Such an interchange takes account solely of the debtor's recent purchases and payments.

By mutual agreement of all the members there is no seeking for information by one direct from the others. In fact, one of the requirements of membership is that there shall be an absolute refusal to furnish ledger information, except through the credit men's bureau, thus relieving the

## CO-OPERATIVE CREDIT INVESTIGATIONS

individual houses of the necessity of furnishing the same information over and over again in different forms.

**Organization of a Retail Credit Bureau.** The plan on which the bureau of the exchange of credit information is operated is simple. These bureaus, usually operated as a part of the work of the local credit men's association or the chamber of commerce, are known by various names like the "Retail Credit Bureau," "Merchants' Protective Association," or the "Creditors' Protective Bureau."

The object of such associations, obviously, is to act as local credit clearing-houses. In this way the "slow pays" may be closely checked. A man who owes several merchants and who is slow in settling may find, to his embarrassment, some day, that he can no longer get credit until he has settled with the stores in which he owes accounts.

**Getting Retailers to Agree to Finance the Bureau.** Each member when he joins the Retail Credit Bureau agrees to stand his pro-rata share of the expense for maintaining the service.

In some instances, a flat appropriation of twenty-five dollars to one hundred dollars a year, as the needs may demand, is levied on each member, payable quarterly, and is included in the association dues, to cover all operating expense for the service.

In the Cleveland, Ohio, bureau, for example, the retail credit men have established an agency of their own which is nominally a stock corporation. There are no stockholders other than the credit men themselves and the firms which employ them.

**Retailers Agree to Give Data to No Other Agency.** In order that the local bureau may perform the greatest possible service for its members, it is customary, in organizing, to agree that merchants will consent to open their files and give data on their customers' accounts to no other agency.

## RETAIL CREDITS AND COLLECTIONS

This is found to be necessary and advisable, not because individual merchants are not willing to promote the free interchange of such information through other bureaus, privately owned or otherwise, but to conserve time and effort and to concentrate all the credit-investigating energy in the community in one organization.

**Success of the Bureau's Records.** The usual plan is to distribute among members of the association cards on which may be entered the information concerning each customer on the stores' ledgers. As new accounts are added each week or each month, according to the system of posting, additional cards are turned in on a form like the one shown here (Exhibit A). Members are not asked to rate these names when first turned in, except the bad ones or "require cash" customers. The others are simply entered on the master card with his membership number as an indication of the store with which this customer is dealing.

### EXHIBIT A

<i>Folio</i> 630	<i>First Name</i>	<i>No.</i> 3
<hr/>		
<i>Name</i>	Brown, John A.	
<hr/>		
<i>Residence Address</i> — 1560 Pennsylvania Avenue		
<hr/>		
<i>Business Address</i> — 1056 16th Street — Clerk		
<hr/>		
Jewelry Store		
<hr/>		
<hr/>		



# CO-OPERATIVE CREDIT INVESTIGATIONS

The master card (Exhibit B) is filed in alphabetical order, and all information of any kind is entered upon it, enabling the clerk in charge of the bureau's files to give the customer's entire record without having to refer to other records in the files except in special cases.

## EXHIBIT B

<u>Brown, John A.</u>								
<u>Residence — 1560 Pennsylvania Avenue</u>								
<u>Business Address — 1056 16th St. Clerk — Jewelry Store</u>								
<u>11/26/15 — 1520 Washington Avenue</u>								
<u>Date — 7/14—9/14—12/14—1/15—1/15—1/15—1/15—1/15</u>								
<u>Mem. No.</u>	3	10	15	75	7	5	15	10
<u>Rate</u>	P.F.	P.	S.			P.E.	G.E.	S.E.
<u>Folio No.</u>	630	75	B215	23	32	630	B215	75

In order that the data on file may be translated into a language that will be understood by all, a key is provided for use in all records. The following is the key devised by the Denver Bureau for this purpose:

P.....Prompt for small bills.  
 PA..... Prompt for \$500.  
 PB.....Prompt for \$250.  
 PC.....Prompt for \$100.  
 PD.....Prompt for \$50.

## RETAIL CREDITS AND COLLECTIONS

PE.....	Prompt for \$25.
PF.....	Prompt for \$10.
G.....	Considered good, but not prompt.
S.....	Slow.
R.....	Require cash.
K.....	Account for collection.
Z.....	Chattel mortgage on personal property.
Vol.....	Voluntary bankrupt.
Invol.....	Involuntary bankrupt.
FED.....	Forcible entry and detainer.
ATT.....	Attachment.
GARN.....	Garnishment.
Ex.....	Execution.
EXT.....	Extension on chattel?
O.....	Representation of goods under chattel.
HE.....	Homestead entry.
ASGN.....	Assignment.
.....	Special information at office.
.....	Combinations like "GE" and "SE" appearing on the card shown indicate "Good for \$25" and "Slow for \$25."

**Shall There Be a Rating-book?** In the early days of local credit bureaus it was the custom to issue the findings of the bureau's investigation to members in the form of a rating-book. It was found, however, that the issuing of such data in book form usually took so long in preparation that it could not keep up with the demands for instant and up-to-the-minute information. The data were six months old by the time the book could be compiled and printed.

To meet the need for fresh information, the telephone was brought into use. With the proper increases in the office staff to handle inquiries the rating-book was discontinued.

**Value of Frequent Meetings of Local Retail Credit Men.** For the small-town merchant, where conditions may not be

## CO-OPERATIVE CREDIT INVESTIGATIONS

exactly suitable for the establishment of a local credit association affiliated with a national organization, probably the nearest approach to effective credit co-operation will be found in the local business men's club or the chamber of commerce.

In most organizations of this kind there is some provision made for the interchange of credit information in an informal way which is helpful for all. Opportunity is given at the meetings held at suitable intervals to compare notes and to establish the beginnings of a closer movement toward real co-operation, and away from the once common feeling of suspicion and "go-it-alone" policy which refuses to recognize like interests for the common good.

**The Manager and His Work.** Responsibility for operating the bureau falls usually upon the shoulders of one man, either the paid secretary of the local business men's club or chamber of commerce or, in larger centers, upon some one picked for especial fitness for the work based on past experience.

The chief part of his work, after the preliminary organization has been completed and the data turned in by members has been put into record form, is to keep constantly in touch with the members of the bureau, making personal calls upon others in the business community who may logically become members, and in making personal investigations of the residents of the community when there are specially difficult cases to handle.

**The Clerical Staff.** The number of assistants needed for the operation of such a bureau will naturally depend upon the size of the community, the number of members, and the number of customers recorded.

Usually there is a telephone clerk assigned to each section of the card file—from ten to twenty thousand names in each section. Between calls for information the clerks are

## RETAIL CREDITS AND COLLECTIONS

occupied in transferring to cards the information on new customers, entering fresh data on cards already on file, and otherwise keeping the records of the bureau in shape for instant reference.

**Files and Records.** In addition to cards shown as exhibits A and B, which are taken practically intact from those in use in the exchange bureau at Denver, Colorado, there are additional forms in use for specific purposes. For example, each day a complete record of suits of record in justice courts is obtained from the county clerk's office. Any other information of value to credit-granters is taken from the papers and other sources. Changes of address are turned in regularly on slips furnished by the bureau shown in Exhibit C.

### EXHIBIT C

#### *CHANGE OF ADDRESS*

*Last name First. Write name in full.*

Brown, John A.

*House address was* — 1560 Pennsylvania Avenue

*Change to* 1520 Washington Avenue.

*Business address* — 1056 16th Street

No. 3.                      Date of change 11/26/15

*Be sure to return this to R. C. M. and A.*

## CO-OPERATIVE CREDIT INVESTIGATIONS

**Notice of Detrimental Reports.** Clerks in the routine of their daily work hold out any card on which detrimental information is placed, such as suits for debts, mortgages, assignments, collection accounts, "require cashes" turned in by any member, or anything that seems to show that a customer is on a financial decline. These cards are then passed to a clerk, who notifies each member whose number appears on the master card, by sending a slip (Exhibit D) giving the nature of the information.

### EXHIBIT D

<i>Firm Name</i>	<i>No. 23</i>
<i>Name — Brown, John A.</i>	
<i>Business Address — 1056 — 16th Street</i>	
<i>Residence Address — 1520 Washington Avenue</i>	
<i>Remarks — K.</i>	

**Indebtedness Report or Clearance.** Frequently these are accounts which appear to be in good condition on a member's books, but which have reached about the limit he is believed to be entitled to. The member wishing to know what he owes to others, calls up the bureau to find out. The clerk calls up each member who has an account and gets the information shown in Exhibit E. This information is then written upon the form and each member who reports is sent a copy.

# RETAIL CREDITS AND COLLECTIONS

## EXHIBIT E

*Name* — John A. Brown

*Address* — 1520 Washington Avenue

*Business Address* — 1056 — 16th Street

<i>Business</i>	<i>Owing From</i>	<i>To</i>	<i>Rate</i>
Clothing	— \$25 — 9/14	— 1/16	R
Department	— \$15 — 1/15	— 1/16	S
Hardware	— \$75 — 6/15	— 1/16	S
Clothing	— \$40 — 8/15	— 1/16	S
Department	— \$100 — 5/15	— 1/16	S
China	— \$20 — 9/15	— 1/16	S
	\$275		

*Remarks:* Has been sued for debt and has chattel mortgage on piano for loan of money amounting to \$100.

A duplicate of this is sent to each person reporting on the man.

If the result shows more indebtedness than the circumstances of the individual warrant, the manager of the bureau is asked to see each interested member and, if agreeable to all, either the association or the largest creditor writes him a letter requesting an interview, when he is shown a copy of the report and asked to make a statement of his financial

## CO-OPERATIVE CREDIT INVESTIGATIONS

affairs, or give sufficient information to justify his owing that amount of money on open account.

It also opens the way for the payment of the account, either through the association, which will distribute the payments pro rata each month, or his agreement to pay each member proportionately and the closing of the account until they are paid or materially reduced.

**Uniform Application Blanks.** Another feature which has been helpful is the adoption of a uniform application blank. Members make use of a form similar to Exhibit F printed on their own stationery. This blank leads all the local credit men to ask nearly the same questions and inspires the applicant with the fact that there is a concerted movement among local stores to get the information needed.

### EXHIBIT F

<i>Name</i>	_____
<i>Residence address</i>	_____
<i>Former residence address</i>	_____
<i>Business address</i>	_____
<i>How long at above address</i>	_____
<i>Own property at</i>	_____
<i>References:</i>	_____
	_____
	_____
	_____

## RETAIL CREDITS AND COLLECTIONS

**Private Telephone Service.** Much of the effectiveness of the service rendered by the bureau is due to the use made of the telephones. In the larger bureaux, like those of Denver or Cleveland, there are as many as four incoming and three outgoing lines. In addition to these trunks the larger users of the service have installed private direct lines connected with their switchboards, thus insuring quick service without interfering with the regular service.

**Providing Desired Information.** In addition to the regular reporting service provided on telephone call, the bureau offers facilities also for special reports from the county real-estate records, making special investigations as to whether persons claiming discounts as members of certain trades, like dressmakers, are entitled to them; looking up applicants for employment; tracing missing debtors; and the like.

**Collection Service.** In cases where the bureau has been called upon to render reports of indebtedness shown in Exhibit E, the merchants to whom bills are owing often find it convenient to intrust the collection of their accounts to the bureau. In such cases collection letters written on the bureau's letter-heads are mailed to the delinquent, thus relieving the individual merchant of the bother of following the account, and realizing at the same time an undoubted psychological advantage on the debtor's mind, because he realizes that he is being watched, not by one of his creditors alone, but by all of them.

One series of letters of this kind is that reproduced here, used by the New Orleans Retailers Credit Bureau.



# CO-OPERATIVE CREDIT INVESTIGATIONS

## NEW ORLEANS RETAILERS CREDIT BUREAU

400 Association of Commerce Bldg.

Member Retail Credit Men's Nat'l Ass'n  
New Orleans, La.

In preparing the files of this Bureau, organized for the mutual interchange of credit information, we find that report an account against you which is past due.

We would suggest that you make a settlement with your creditor at once so that your record may be clear in our files.

Members of the Bureau will, under our rules, report to us within five days as to whether or not settlement has been made.

Very truly yours,

NEW ORLEANS RETAILERS CREDIT BUREAU, INC.

# RETAIL CREDITS AND COLLECTIONS

## NEW ORLEANS RETAILERS CREDIT BUREAU

400 Association of Commerce Bldg.

Member Retail Credit Men's Nat'l Ass'n

New Orleans, La.

We wrote you under date of stating that had reported an account against you which is past due.'

Our letter showed clearly that it was sent in order to give you an opportunity to make settlement with your creditor and thus avoid an unfavorable credit report with us.

Operated, as our Bureau is, by the leading retail merchants of New Orleans, our aim is to conduct negotiations with you in confidence and with the utmost fairness. It is our business to give accurate and truthful information as to the paying habits of customers when inquiry is received from members of the Bureau, and we feel sure you will appreciate the value of a good credit standing with these merchants.

We shall expect you to make settlement with your creditor at once. Under the rules of our Bureau, unless this is done within five days, the matter will be turned over to our attorneys for proper action.

Very truly yours,  
NEW ORLEANS RETAILERS CREDIT BUREAU, INC.

# CO-OPERATIVE CREDIT INVESTIGATIONS

## NEW ORLEANS RETAILERS CREDIT BUREAU

400 Association of Commerce Bldg.

Member Retail Credit Men's Nat'l Ass'n

New Orleans, La.

The New Orleans Retailers Credit Bureau is owned and operated by the large retail stores of New Orleans for their protection. The stores connected with the Bureau have given us a list of all their customers and also make reports to us daily. IF YOU DON'T PAY YOUR BILLS THE CREDIT BUREAU KNOWS IT AND OUR RECORDS ARE AVAILABLE TO ALL OF THE LARGE STORES OF THIS CITY. The Bureau also furnishes information direct to other Retail Credit Bureaus in all of the large towns and cities of the United States.

You can't afford to have an unfavorable record in our files, and while we have written you several times regarding your account with \_\_\_\_\_ and have heard nothing from you, yet we are of the opinion that you are honest and want to pay this account.

Is there some mistake in your account? Are you unable to pay the bill now? Were you unfairly treated by the store?

We are willing to do anything that is right about arranging a settlement, but, unless we receive a reply within five days, shall take it for granted that you do not intend to pay this bill and you may look for an opportunity to settle with our attorney.

Very truly yours,  
NEW ORLEANS RETAILERS CREDIT BUREAU, INC.  
Per \_\_\_\_\_ Mgr.

## RETAIL CREDITS AND COLLECTIONS

**Sending Out Personal Collectors.** In some bureaus it has been found effective to use personal investigators as collectors. One or more men attached to the bureau experienced in the art of personal collecting add a very effective bit to the service rendered by the bureau.

**Cost of Operation.** In a city of 200,000 population, it will take at least nine or ten employees to operate the office successfully.

Adding the charge for help, charges for rent, stationery, telephone, and the like, experience shows that from \$8,000 to \$9,000 a year will about cover the expense, making an average of about \$42.50 per month for a membership of 200. Usually a charge is fixed according to the use made of the reporting and collection service, with a fixed charge for a minimum.

**A System Based on Abnormal Transactions.** Since the item of expense of time or money is one that must be constantly watched, there is a special and growing interest now in a system of credit-reporting that concerns itself only with the abnormal or unfavorable in its records.

Under such a system a credit customer who always buys in normal amounts, and who pays his bills with regularity, will not appear prominently in the files of the interchange office, where only abnormal transactions are reported. This is because no one has had occasion to inquire about him.

The unsatisfactory customer, on the other hand—that is, the one who is habitually slow with his creditors and who for that reason is always compelled to seek new credit—is likely to have a great deal of information recorded about himself, because, under the rules of such a system, each slow payment and each request for new credit will have brought an inquiry, accompanied by a statement of the facts that caused the inquiry to be made.

The advantages of such a system over one where the same

## CO-OPERATIVE CREDIT INVESTIGATIONS

amount of record keeping and reporting is necessary for all accounts, normal and abnormal, will be self-evident. In most cases, however, opportunity is given the inquirer to indicate by a check mark on the inquiry ticket whether, in the case of all old customers, the last bill was discounted, paid at maturity, slow, or collected by draft or attorney. Only those transactions involving new or considerably increased credit are reported

**Pay-up Week.** The Chinese have a custom of celebrating New-Year's day by looking up their creditors and paying their debts. This idea, borrowed and applied in various communities throughout the country, has worked so successfully that an effort has been made to provide a "national pay-up week" at the end of February in each year.

The secretary of the Chamber of Commerce in a small Wisconsin town explains the working of pay-up week as applied to his locality:

The settlement-week movement is an effort to get each community to set a time each year in which men shall settle with one another and get their business bearings, so as to carry on intelligently the work of the new year. In these days, business is so complex that one man's success depends to a large extent upon the other fellow. If I pay my bill, the other man will pay his, and so an endless wave is set in motion with an effect that finally comes back to me. Men go on year after year doing business in a haphazard way, not knowing where they stand. One man, a tailor, told me he had been doing business back and forth with a dentist for ten years, and that he had no idea who was the debtor, or how much. Then, again, the last year has been especially unfortunate in the number of book accounts. The merchants of this small town sent out about 8,000 statements, and as a result something over 2,000 accounts were settled and over \$40,000 was paid during the week.

The movement to organize pay-up weeks is usually sponsored by the local associations which aim, through local newspaper and poster advertising, to quicken the local con-

## RETAIL CREDITS AND COLLECTIONS

sciousness of credit obligation, to get every one who may owe another a sum of money to make an extra effort with others in the community to pay up and start over.

Certain trade papers have been active in promoting the organization of such campaigns, and in some instances they have undertaken to supply the forms needed and to give detailed instructions as to how to proceed. The results from such campaigns reported from various parts of the country have been surprisingly favorable.

**How Pay-up Week Is Organized.** The Dallas Retail Credit Men's Association initiated the movement for the pay-up week in Dallas, which in many ways was notable among such unique campaigns. The first thing they did was to investigate the experience of other cities in planning such a campaign, to find out where the weak spots in the scheme occurred.

When the committee from the association went to the Dallas merchants with the suggestion for holding such a pay-up week, they were met with a ready, enthusiastic response. Every merchant in the city realized the good to be derived from such a campaign. All the details were worked up by the Retail Credit Men's Association without the aid of any one from the outside. All advertising copy was written by men who were thoroughly familiar with the credit angle. The campaign was different from other co-operative advertising in that it included every newspaper in Dallas, weekly as well as daily, and no single piece of copy was in any case duplicated. For two weeks ahead of time slides showing catchy notices of the approaching event were thrown upon the screens in moving-picture houses in Dallas; street banners were used in the main intersections of the city streets in which "pay-up week" was strongly featured. Hundreds of large two-colored placards were put in the show windows and elevators in the city, bearing "credit

## CO-OPERATIVE CREDIT INVESTIGATIONS

don'ts," and blotters were distributed in the down-town business section, bearing the same kind of publicity appeal.

Direct-by-mail advertising methods were followed in the distribution of many thousand pages of credit matter through the telephone companies and various merchants who inclosed them with letters, and so a wide circulation was secured with the least possible waste. On the first day of "pay-up week" advertising copy displays three columns wide were used in all four daily papers, in addition to which small cuts of greater variety were used on different pages. A few of the pages of copy used for the campaign are reproduced here.

**Meet Your Obligation Sunday.** Another interesting example of co-operative effort on the part of retailers to keep people reminded of their obligations as credit customers is "Meet your obligation Sunday," a typical campaign for which was recently initiated in Dallas, Texas, also by the local Credit Men's Association, in which the churches lent their fullest measure of aid.

The movement was based on the idea that the church has always stood for honesty, for the commandment "Thou shalt not steal," and although the appeal had never come quite so directly before, the church has really always been a moving factor in urging people to be honest and to pay their debts. Since collection laws in Texas are notably lax, it was evident that all the moral influence possible should be brought to bear on people in the community to keep them alive to their obligations.

When the project was being planned, the representative from the local Credit Men's Association addressed the Dallas Pastors' Association, showing them an opportunity for the churches to do a practical service for the community and for themselves. The association pledged itself to advertise the project as widely as possible, to insure its success. The

# Do You Pay Your Bills?

Being the Second and  
Continuation of a  
Series of Talks on  
Bills and the Proper  
Payment of Them.

## Credit Is Honor

**I**N the commercial world—credit is extended for two purposes.

Credit is given by the banks when sufficient collateral is "put up" to start new businesses and finance older concerns. The farmer, to improve his farm and take care of his crops, obtains credit. The manufacturer, the retailer, the contractor—all take advantage of this kind of credit to finance their undertakings.

The other kind of credit is that extended by the retail man to his customers for the CUSTOMER'S CONVENIENCE. No collateral is asked for. It's an agreement based solely on HONOR.

The only thing taken into consideration is the customer's past performance—the way he has paid his bills IN THE PAST. One may have a very modest income—but have a sterling credit. It's not money BUT HONOR that establishes a good credit in retail deals.

## Credit Is Convenience

**R**ETAIL merchants in extending credit to their customers—FOR THE CUSTOMER'S CONVENIENCE—have been imposed upon. Thousands and thousands of dollars have been lost—BECAUSE SOME PEOPLE PLACED NO VALUE ON HONOR.

UNSCRUPULOUS MEN AND WOMEN have taken advantage of the confidence bestowed upon them by the merchants and BEAT them out of fortunes.

To eliminate this imposition and make it impossible for FOLKS WHO DO NOT PAY THEIR BILLS to obtain credit, the RETAIL CREDIT MEN'S ASSOCIATION was formed.

Every member of this association has a credit rating of their customers. If a customer is not paid, the rating is lowered. If a rating goes through a clearing house, which gives the clearing house a record how every customer of every store in Nashville pay their bills with every store.

It's a complete sum total of the value every customer places on HONOR. This information is sent out in full every week to every member of the association.

If a certain individual lags on one or more accounts every member of the association receives a notice. If the customer is not paid, the rating is lowered. On the other hand, when the individual pays his bills promptly, his rating becomes established—and his credit automatically goes up.

**T**he First o' the Month WEDNESDAY is the first of the month. On that day all bills incurred during the past thirty days are due.

You should pay those bills then or make arrangements to take care of them before the fifteenth.

Remember, it's really a convenience to you—that charge accounts are opened. Merchants go to an enormous expense in their bookkeeping department to help you—and you in turn should show your appreciation by PAYING YOUR BILLS and PAYING THEM PROMPTLY.

Begin this month. Pay your accounts NOW. It will enhance your credit, help the merchant, and eventually tend to lower the price of the goods you buy.

It's respect—square and simple—in which all parties benefit.

## Play Square

**G**ET a CLEAN BILL OF HEALTH, so to speak. Clean up your old accounts—SETTLE YOUR BILLS. It will save time, worry, trouble, embarrassment and HONOR.

CREDIT IS THE EASIEST THING IN THE WORLD TO GET. All you have to do is TO PLAY SQUARE with yourself and your fellow man.

CREDIT follows you through life—and it is based entirely upon past performance.

Some time you may leave your home town. You may go into a new business. You may get a new car. You may get a new job. You may get a new "clean bill of health" to take along with you—you'll have no trouble in establishing yourself.

CREDIT IS A WONDERFUL THING.

There is a movement on foot at the present writing which will probably be established in a few months whereby the Retail Credit Men's Association of the State of the United States and Canada will cooperate in an attempt of exchanging ratings.

Nashville Retail Credit Men's Association

Copyright, 1914  
L. C. LESTER, Publisher



# Do You Pay Your Bills?

Being the Third and  
Continuation of a  
Series of Talks on  
Bills and the Prompt  
Payment of Them.

## "Settle"

### PROMPT PAY CREATES CREDIT.

The bills you incurred last month are due NOW. Bills you made before last month and which still remain unpaid ARE OVERDUE—if you do not pay them you are imposing upon good nature.

The only reason the goods were charged to you—was for convenience sake—YOUR CONVENIENCE.

The merchant thought you were as GOOD AS YOUR WORD. He trusted you implicitly. He allowed you to take the merchandise out of his house.

NOW IT'S YOUR TURN to make good. Prove to him you're HONORABLE—that you are as good as your word—AND SETTLE.

## "Honor"

### PROMPT PAY CREATES CREDIT.

A man can be worth millions, yet so slow in settling his obligations as to make merchants hesitate in trusting him with their wares.

A ditch digger, laboring daily for a mere pittance, but realizing the importance of PROMPTLY MAKING GOOD HIS WORD, can buy, unquestioned from the same merchant.

It's not the irony of Fate—it's just HONOR. ABLENESS—a full realization of the word "HONOR."

Copyright, 1911,  
L. C. LUTHER, Nashville.

## Promptness

"A STITCH IN TIME SAVES NINE."

An old saying, but a truer one was never said. It applies to everything where PROMPTNESS COUNTS—and promptness counts in everything.

It's the STITCH IN TIME THAT SAVES CREDIT.

It also saves HONOR, EMBARRASSMENT, AND SELF-RESPECT.

The man who pays his bills can look the whole world in the face. And better still—the man who pays his bills can buy again—and say "Charge it."

PROMPT PAY CREATES CREDIT, and credit is the most valuable thing in the world.

To weed out the men and the women who do not pay their bills—who do not value their honor—THE CREDIT MEN'S ASSOCIATION was formed. The association consists of practically all the retail merchants in the city. They have a clearing house, through which all bills are paid. If a merchant does not pay his bills, this association to find how a customer has been paying his bills with any other member. The elimination of the undesirable customer who makes it a habit of buying first from one merchant then another, and then from a third, is the object of the association. It is to help every merchant in this association know it—and credit you accordingly.

Nashville Retail Credit Men's Association

## RETAIL CREDITS AND COLLECTIONS

campaign opened with an explicit letter to every pastor in the city, explaining the entire problem, and giving an outline of the points to serve as a basis for their sermons.

On the Monday preceding, hundreds of attractive posters were distributed all over the city in store windows, banks, and elevators, or wherever they would be seen. The poster reproduced here was the type used.



On Wednesday the display advertising planned as a part of the campaign began to appear in the papers, and continued up to the Sunday-morning edition. The sermons delivered were, without exception, practical and to the point.

**General Advertising to Help Retail Credits.** A campaign for securing a better understanding by the customers of retail grocers of their obligation to pay their bills had been undertaken in several instances by jobbers and manufact-

## CO-OPERATIVE CREDIT INVESTIGATIONS

urers who stood all the expense of the campaign. The sole purpose of this advertising was to ask a square deal for the corner grocer from those he accommodates by extending credit.

A typical piece of copy in such a campaign is reproduced here.

### HINTS TO THE WISE

---

When you pay your bills, give your grocer first money.

He supplies you with the most necessary things in life—food.

The most important thing in the world is to get something good to eat.

If you must put off paying any one, therefore, let it be any one BUT the grocer.

He is not wealthy. He seldom has a surplus in the bank. His money is all invested in merchandise and accounts.

He buys of wholesale houses who sell on stated terms and have experts who are paid to get the money when due. He cannot pay them with excuses.

He cannot afford collection expenses. He should not be expected to. If he is courteous enough to give you credit, show him equal courtesy by saving him extra expense.

He has no security. What you buy of him is soon consumed and he cannot get it back. He trusts you on your honor alone. Who else does as much for you?

He asks no favors—needs no charity—but is entitled to a square deal.

Be square—be fair—be just.

## RETAIL CREDITS AND COLLECTIONS

**Advertising Advantages of Credit.** Still another outgrowth of the co-operation movement toward customer education in credit is found in the advertising campaigns undertaken by local associations in Nashville and other cities in the South and Northwest, using paid advertising space in local newspapers.

The theory back of the advertising plan is that, if credit is a good thing, why not advertise it? The copy used comprises a series of educational talks, published frequently during the year and intended to show the relation between prompt payment of bills and the continued expanding property of merchants and of the individuals themselves.

**Local Credit Associations Operating Without a Central Bureau.** There have been a number of instances where local merchants have been able to secure all the benefits of a central bureau for interchange of credit information, but without actually going to the expense of maintaining an office with manager and assistants in charge.

The plan in such instances is to provide stationery printed to bear the name chosen for the association like "Retail Merchants' Association," or the like, and give each merchant a supply. He keeps track of all his own accounts. When it becomes necessary to write to some of his delinquents he writes on association stationery and signs it with the name of the secretary. Thus behind his efforts at collecting stands the moral support of the entire association, procured with but slight expense. Under the plan each member of the association is supposed to act as a corresponding secretary.

The association has a post-box to which all association correspondence is directed. It is taken out by the secretary and distributed to members. The fee for membership is nominal—one dollar—and a charge is made for the stationery used.

The method of organizing such an association is made

## CO-OPERATIVE CREDIT INVESTIGATIONS

clear in the following by-laws of an organization of this kind in the Central West.

We, the undersigned, believing that many of the evils incident to a credit business may be eliminated by co-operation, do hereby organize an association to be known as the ..... Protective Association. Its object shall be to assist each other in the collection of bad accounts and to protect its members from those unworthy of credit.

Its officers, elected annually, shall be a president, whose duties shall be to call meetings when it deems it advisable, and to preside over the same; a recording secretary and treasurer, whose duties shall be to keep a record of all meetings, collect dues and assessments, distribute mail to individual members that has been addressed to the association, to purchase stationery and sell it to the members at actual cost, and to perform other duties as approved by the advisory board.

An advisory board consisting of the president and three members appointed by him, whose duties shall be to define the policy of the proceedings, are within the limits of the law. To audit the accounts of the secretary and treasurer and to instruct him in any special duties that may be required.

Each member of this association shall be a corresponding secretary and be authorized to use the association stationery and form letters constructed for that purpose. Membership fee will be \$1 payable in advance.

**Retail Credit Men's National Association.** Helpful as the local associations of credit men have proven to be, the organization of bureaus and co-operative efforts to better the business conditions of the community, their efforts would never go far toward permanent betterment of conditions and retail credit practice, as far as the country is concerned, without the centralizing and unifying influence of a national association.

The Retail Credit Men's National Association, with present headquarters at 613 Locust Street, St. Louis, Missouri, has been developed in answer to the need for a permanent organization for improvement of retail credit conditions.

## Time Never Wears Out a Debt

*"The Longer I Owe You—the More I Ought to Pay"*

Several years ago a man in South Texas left a great part of his estate to a poor fellow in Pennsylvania who, years before, had grubstaked him and furnished him money for things he had to have. It was years before he could pay this debt. In one of his letters he wrote: "Old pal, I ain't forgot you. I'm working hard and I'm sure to pay you, and pay you with interest, if God spares me. I time never wears out a debt, nor the recollection of a kindness and the longer I owe you the more I ought to pay and I'm going to do it."

Do you think the Texas man was right when he willed a great part of his estate to the fellow who trusted and helped him when he needed it? Do you believe that kindness should be appreciated and confidence never betrayed? Say, Jack Smith got something to eat or wear from you and promised to pay for it; would you expect Jack to do it?

You say you would? Well, that is all those who have trusted you have expected you to do. It has been a long time since some of them have seen a penny of your money—just, why, they cannot understand. Perhaps you have what appears to you a very good reason, but sit down and think and decide for yourself whether the reason is really a good one. You got their goods—that is the part that concerns them. You gave your word that you would pay—that is the part that concerns you.

If you receive bills and requests for payment of your delinquent accounts, be a MAN and don't ignore them. Give them serious and honest attention—you are expected to do no more for those you owe than you would expect them to do if they owed you. Nobody bears any ill will and you should bear none.

**On those bills you owe—why not make a payment today and say when you'll pay the balance? And from this on let's pay our bills promptly when they are due.**

*"Pay-Up Week"—Oct 1st to 6th*

**Dallas Retail Credit Men's Association**

## What Credit Did for Bill Jones

Bill had a nice income, a cozy home and a happy family. He was HONEST. Nobody ever knew Bill Jones to promise anything he wouldn't do if it was within his power. When he bought anything on credit the bills were settled promptly when due and the merchants accepted his word as his bond.

Suddenly misfortune overtook him. Sickness in his family, reverses in business—all seemed to come at one time. And like a MAN, Bill faced his trouble. He owed some accounts he had made when he had every reasonable expectation that he would be able to take care of them as they came due. Now he couldn't pay them.

But he did the right thing. He went to every one of his creditors to explain, and they did not hesitate to give him time, and in addition accommodated him on some goods he needed until he could get straightened out.

A man's clear credit, the faith the merchants have in his honesty and integrity, proves of great help in time of need. YOU can't tell but what ill fortune may come to you some day as it may come to any of us. NOW is the time to PREPARE for it. Keep faith with your creditors.

The Dallas Retail Credit Men's Association has for its object the protection of its many members against those who deliberately beat their just debts. But there are men whom we want to help—the men who have merely been careless and have overlooked or neglected obligations without willful intent; also the men who for reasons beyond their control can not meet their obligations.

**If there's a bill you've neglected—a broken promise to pay—this is an invitation to square yourself.**

*"Pay-Up Week"—Oct 1st to 6th*

**Dallas Retail Credit Men's Association**

## Who Are the Best People in Town?

The best people in any community are those who are of the greatest benefit to the largest number. They are not the extravagant, nor the rich, nor the influential. Neither are they those who seek social position nor those who live in seclusion. They are neither professional nor working men. They do not belong to any special church or organization nor do they follow a certain vocation. THE BEST PEOPLE are found in every class, in every walk of life and in every neighborhood. They are best because they are fair and square in their dealings with their fellowmen. They are best because, when they make a promise, they live up to it unless overtaken by misfortune. They are best because they take no dishonest advantage in trade and because they practice the golden rule.

A man who owes five dollars and pays it when he promised to pay it, is better than the man who owes a thousand but has no regard for his obligations and tries to evade them.

The Dallas people are going to experience a novel sensation. On the occasion of "Pay-up Week," Oct. 1 to 6, they are receiving public invitations to pay their debts and the advantages of keeping one's credit record clear will be pointed out in educational circles.

If there is an account you've failed to pay when you promised to pay it—NOW is the time to make good. Your creditors will be glad to see you, for they bear no ill will and, after all, you won't be happy till you get that "RECEIPT IN FULL."

In the Credit World of Dallas this Association stands for thorough co-operation and for Better Business. And we are always willing to help those who want to protect their good name and try to do the right thing.

*Pay-Up Week—Oct. 1st to 6th*

**Dallas Retail Credit Men's Association**

*"Pay-Up Week" Oct. 1st to 6th*

## **Don't Blame the Credit Man!**

¶ When YOU overlook an account and you receive "duns"—don't blame the credit man.

¶ When YOU'VE made a promise to pay and broken it and the creditor insists on HIS money—don't blame the credit man.

¶ When YOU buy goods with the understanding that you will pay for them at a certain time and you don't do it and you are reminded of your negligence—don't blame the credit man.

¶ When YOU habitually neglect your account and your word can't be depended upon any longer and your account has to be closed—don't blame the credit man.

¶ And when YOU go elsewhere to open an account and the accommodation is declined—for your credit record follows you wherever you may go—don't blame the credit man.

*"Pay-Up Week" Oct. 1st to 6th*

**Dallas Retail Credit Men's Association**

## RETAIL CREDITS AND COLLECTIONS

Quoting from a circular of information issued by this association, its objects are:

1. Information. (On credit subjects, matters and methods of interest and importance.)
2. Education. (Experience and suggestions conveyed through the *Credit World* and in person at conventions.)
3. Co-operation. The interchanging of ideas, credit data, successful and workable schemes.)
4. Improved Legislation. (The improvement of laws dealing with the individual seeker of credit and the enactment of new laws of benefit to the retail trade.)
5. Uniform Methods. (Uniformity in order to secure the highest degree of efficiency.)

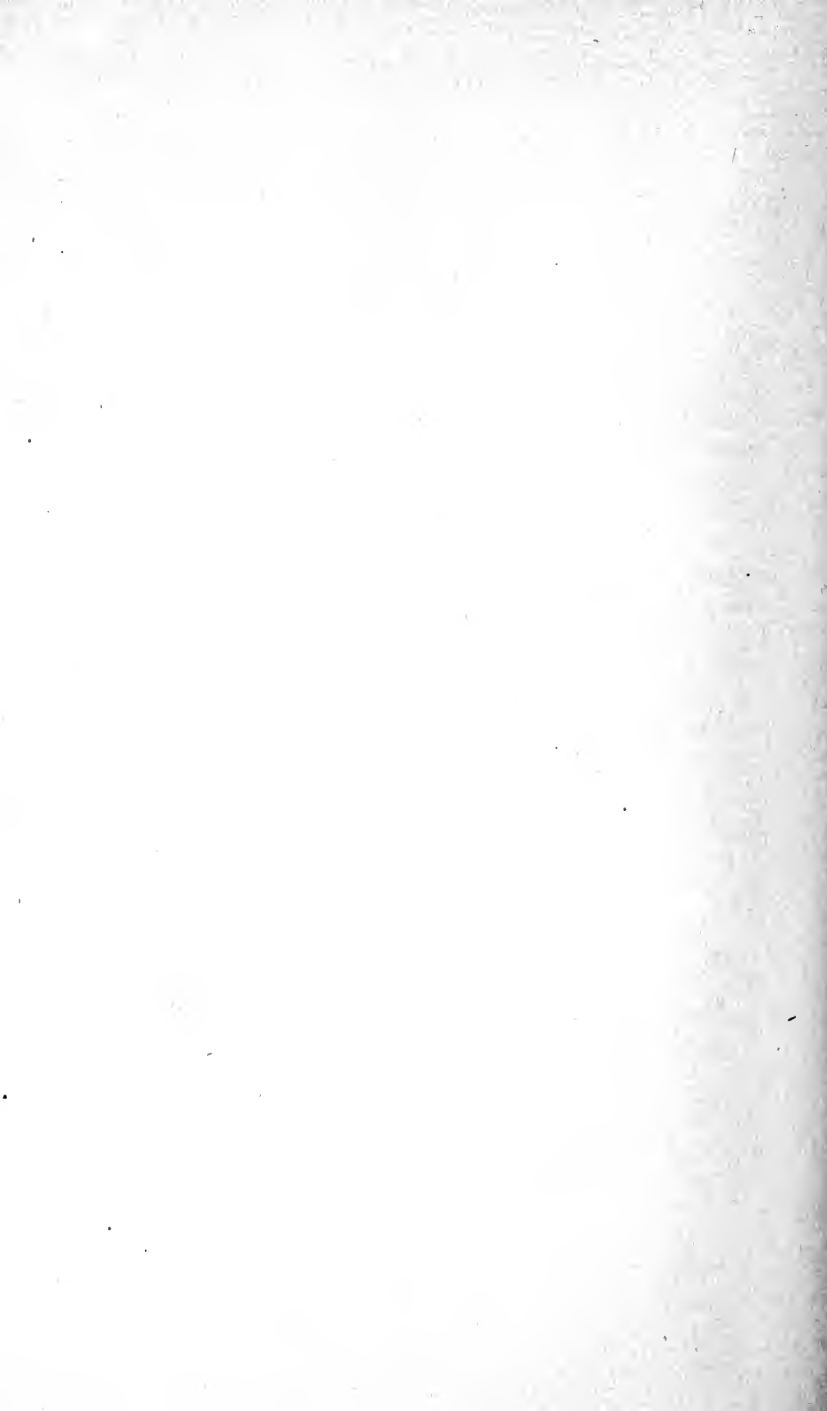
**Advantages of Co-operation.** Summing up the benefits that might be derived from membership in a retail credit men's association, which in turn is affiliated with the national association, they are:

1. Credit men are brought together, and the exchange of ideas broadens them and keeps them in touch with subjects vitally important to their work.
2. Great amounts of money are saved to the merchants annually in place of going to the support of a very undesirable class of citizens.
3. The general public is educated to the fact that credit accounts are obligations which must be paid promptly if they desire a first-class standing with the merchants.
4. By co-operation, many evils affecting collections are eliminated, where individual effort would be in vain.
5. Many good laws relative to assignments, mortgages, exemptions, and collection of accounts in general have been placed in the statute-book as a result of the co-operation of credit men.
6. The credit exchange bureau is the best collector of slow accounts in existence. The Retail Credit Men's National Association represents the greatest movement so far made toward betterment of retail credit conditions.



## **Part III**

### **CREDIT OFFICE PROCEDURE**



## VII

### HANDLING APPLICATIONS FOR NEW ACCOUNTS

**Information Essential for Judgment of Credit Risks.** While the volume of any established store's business must come from old customers—those who have been accustomed to make their purchases more or less regularly at the store from time to time—much thought and attention must be given by every progressive store proprietor to securing the accounts of new people who are constantly being added to every growing community.

There are two things to consider in connection with new accounts: First, the securing of them, and, second, the handling of these customers at the time the account is opened.

The information essential for the judgment of credit risks may be grouped under three heads: 1. The applicant's character. 2. The applicant's capacity. 3. The applicant's co-operation.

These three "C's" of retail credit-granting are not quite identical with those so often quoted in wholesale credit practice. The trouble in the past has been that retail credit men have tried to follow wholesale credit methods a bit blindly and without realizing that there is a wide difference in their contact with the customer.

Take the applicant's character, for example. It will be revealed first in his general history; second, in his standing in the community; and, third, in his ability to get ahead as shown in the amount of salary he receives, the amount of property he owns, the vigor with which he conducts his

## RETAIL CREDITS AND COLLECTIONS

business, or the consistency with which he holds his position if he is on a salary.

Character in the sense that it affects the retail credit man's judgment of an applicant, then, is the indication of his intention or his willingness to pay.

Capacity in the applicant is judged by his ability to earn enough to pay his way—to increase in earning power consistently to make his account increasingly more worth while to carry.

The third "C"—which we have called "co-operation"—is the applicant's manifested willingness to co-operate with the store by buying regularly, paying promptly, and concentrating his purchases at the place where he has been extended the privileges of a charge account because of the fact that he values the consideration shown him.

**Importance of a Good Impression on New Customers.** Remembering that it often costs dearly to obtain the first order from a new customer, it is necessary to consider carefully how applications shall be handled so that the accounts may be made to grow into profitable ones. There are two decisions involved in the consideration of all applications for credit from new customers. 1. Shall credit be granted at all? 2. What limitation shall be put upon it?

Practice differs widely in all particulars with (a) different lines of industry, and (b) different concerns in the same industry.

**What Information to Get.** First, from the customer's own lips, at the time he has his first interview at the credit desk and makes his request to open an account, the credit man has his best opportunity to form his own judgment of him. He tells where he is living, by whom he is employed, what work he is doing, how long he has been there; gives an idea of what wage he is making and the names of references who can tell more about him—trade, bank, or character refer-

## HANDLING APPLICATIONS FOR NEW ACCOUNTS

ences, as may be desired. The store's salespeople often prove to be additional sources of information through acquaintances. Letters from or interviews with references serve to corroborate points in the customer's statements. Landlords and other tradesmen with whom the applicant has dealt can often give valuable sidelights on the customer's character. Clippings from newspapers add to the fund of information. Collectors or personal investigation of reports offer other sources of information. With such information gathered from every available source, the next step in the work is to classify and record it, filing details in summary form for immediate use.

Then the credit man is in a position to pass judgment on an account and fix a limit upon it with terms which he is willing to allow.

Finding nothing against the applicant, if the order is within reason it may be passed for immediate delivery, using particular care to send it out promptly and accurately. The new customer ought to be made to feel that his order is appreciated. He gives credit references promptly and willingly, and will permit the delivery of the merchandise instead of asking leave to take it with him.

There is apt to be a difference in the case of out-of-town women customers, whose credit is undeniably good, but who think that they should be as well known in town as they are in their smaller neighboring community, and who are often provoked when references are requested or when there is any delay in authorizing their purchases.

In such cases the long-distance telephone or a telegram is most useful, if a bit costly, to speed up the process of verifying facts given by the applicant, and thus well repaying the effort in the long run.

**Need for Tact.** The applicant for credit must be handled very carefully. Most women know so little about the requirements and necessities of business that the least sug-

## RETAIL CREDITS AND COLLECTIONS

gestion of brusqueness in handling during the ensuing interview at the credit desk, while the process of getting needed credit information is in progress, may give offense. The applicant must be kept entirely at ease, and yet the information must be obtained.

There is no more important step toward the safeguarding of an account against future delinquency than the treatment accorded the new applicant for credit. This treatment, beginning at the counter, may be illustrated as follows: A customer, after making her purchases, is questioned:

*Salesman.* "Have you an account?" (Never say, "Is this charge?")

*Customer.* "No, but I'd like to open an account."

*Salesman.* "Will you wait just a moment to meet our credit man, please?" or, "Please come to the office with me to arrange details."

It was formerly generally conceded that all applicants for credit should be brought to the credit desk for a personal interview. Some credit men have even taken it upon themselves to train the salespeople, and department heads, as well, to ascertain, if possible, the customer's name on the way to the office; they can then properly introduce the applicant to the man in charge, state the purpose of his errand, and then withdraw. This starts the interview on a much more friendly basis than the customary "What's your name?" and the salesman, leaving, brings the interview to the point where it may be continued easily. Opinions differ somewhat nowadays as to the best place for holding such interviews. At certain high-grade specialty-shops it is customary now for the credit man to go to the department to interview the new customer. Wherever the interview is held, however, it is at best a strictly confidential matter between two people and cannot be submitted with any degree of satisfaction with more people present.

## HANDLING APPLICATIONS FOR NEW ACCOUNTS

**Questions to Be Asked.** The man at the credit desk divides his work under two distinct heads, first the opening of the account, and, second, the collection of the account. It is difficult to say which is more important. Since the opening of the account brings the customer to the department for the first time, first impressions are very important because they are always lasting.

It is difficult to say exactly what information it will be necessary to obtain in all cases. The man in charge must use his own judgment as to the questions to be asked.

Ordinarily, the man who must pass on the application should be given at least twenty-four hours before rendering his decision, in order that he may fully investigate the facts given. This much time is necessary if justice is to be done to the customer and to the store.

**Impressing the Terms of Credit.** Before leaving, after the interview, the customer should definitely understand the terms. This is the best insurance against future misunderstandings. A limit should be placed on all accounts because of the fact that it gives the quickest warning of approach to the danger-point in the use of the account. It is well to get from the customer a statement of the highest probable amount that the account will reach at any one month.

In the case of younger persons, if they have no definite idea what this amount will be, it is best to place a limit and arrange for them to see the credit man if at any time later they wish to exceed this amount. In some cases it is very necessary to tell the customer what the limit will be. In most cases it would be a mistake to do so.

Experience would indicate that an applicant will answer questions readily if they are asked courteously and definitely and as though you not only expect and have a right to the information, but as if you appreciate it as well.

In some stores the application blanks are filled out in

## RETAIL CREDITS AND COLLECTIONS

duplicate, a copy in each case being sent to the local credit association or rating bureau. Others have printed on the blank a request that the account be opened stating the understood terms, limits of purchases, and so forth, which form it is customary to ask the applicant to sign. Such an application form is given here:

### FORM OF APPLICATION FOR CREDIT FROM A GROCER.

Date \_\_\_\_\_ 191

FULL NAME: \_\_\_\_\_

Address: \_\_\_\_\_ Apartment: \_\_\_\_\_

Occupation: \_\_\_\_\_

Place of business: \_\_\_\_\_

Or where employed: \_\_\_\_\_

Name of last butcher: \_\_\_\_\_ Address: \_\_\_\_\_

Name of last grocer: \_\_\_\_\_ Address: \_\_\_\_\_

Name of present land lord:  
or agent : \_\_\_\_\_

Own property at \_\_\_\_\_ address: \_\_\_\_\_

I shall make it a practice to pay (weekly (cash  
(Semi-monthly (check - name of bank  
(monthly

\_\_\_\_\_  
Signature \_\_\_\_\_

-----

You are asked to give us the information on this blank so that you may be assured all the extra convenience of a charge account with us.

You understand, of course, that the information you have given us here is considered by us as confidential. Its sole purpose is that we may become better acquainted with you.

We hope that the mutual confidence which is established may be permanent and profitable for us both.



## HANDLING APPLICATIONS FOR NEW ACCOUNTS

**Use of References.** Names of personal references given by the applicant at the time of the interview, while they are not always the best sources of dependable credit information, because friends may always be expected to speak well of the applicant, offer, nevertheless, a useful means for further verification of credit impressions gained from other sources.

The applicant's references to business houses, by whom he may have been employed or with whom he has had business dealings, offer a stronger and more accurate line on his reliability and paying habits.

The only value of a reference of any kind will be to help to determine the applicant's earning capacity and his paying habits.

**Verifying the Facts.** When the credit office has secured the information wanted as a basis for credit and when judgment has been passed after the applicant's personal interview, the work of verifying the facts or getting further information begins.

The first step in such cases is to call up the local retail credit interchange bureau, if one is available, or call for the service of a local credit-reporting agency if the applicant is in business.

The initiating of these investigations takes but a few moments in a well-regulated office. Often the telephone offers the readiest medium for securing the information wanted. From landlord, from bank, or from employer references, although a representative from the credit department may find it desirable to supplement such inquiries by personal calls on all those mentioned in the applicant's statement.

When the investigation is completed the store's records show, in addition to the facts given by the applicant himself, what salary he receives, his reputation for paying his

## RETAIL CREDITS AND COLLECTIONS

debts, his personal habits, his steadiness in positions he has held, what rent he pays, whether his house is owned or partly paid for, and all about any other sources of income outside of his regular salary or wage. It may be necessary to verify claims of property ownership at the county clerk's office.

**Need for Classification of Accounts.** As the surest measure of prevention against loss through budding delinquency, in payment of accounts, the progressive retailer makes it his business to watch his accounts closely, classifying his debtors not simply as honest, dishonest, or prompt pay and slow pay, but with a third and distinct class that may be called "tricky" debtors.

Honest debtors may be classified as:

First—Prompt pay.

Second—Slow pay.

Third—Careless and indifferent.

The chief value of such a classification of accounts lies in the readiness with which the man in charge may decide when to shut down or refuse further accommodation.

Undoubtedly the greatest loss from uncollectable accounts is due to delay—failure to take proper steps to collect as soon as the account becomes past due. Nearly all slow-paying customers intend to pay when the debt is contracted, but such people, having limited means and numerous wants, find it difficult to make ends meet.

They cannot pay all their obligations at the same time; therefore they try to pay a little here and a little there, on the claims that are most promptly and vigorously brought to their attention. The result is that if a customer buys ten dollars' worth of merchandise on credit from each of two stores, both accounts being due the first of the following month, and if one of the creditors presents his bill promptly

## HANDLING APPLICATIONS FOR NEW ACCOUNTS

when due, he will, nine times out of ten, neglect the creditor who is lax in presenting his claims in favor of the one who makes it plain that the obligation may not be put off.

The policy which allows a customer all the time he wants will have a greater tendency to drive away trade when the collection is pushed, after becoming old, than one which insists on reasonably prompt payments at all times.

When an account is allowed to run too long, the customer having contracted other and more recent bills, which are fresher in his mind and which he is more inclined to pay than the older ones, he gets further away from the idea of payment every day. He avoids the store where he owes an old account and he spends his cash elsewhere.

**Turning Down Doubtful Applications.** Since the credit which the retailer is asked to give to the applicant is simply confidence based on the prospective customer's apparent ability, sufficient to meet the requirements, there must be a definite and substantial foundation for this trust.

In most cases where, after careful investigation, it is necessary in the store's interest to refuse a charge account, the decision will be conveyed by letter to the applicant rather than in a personal interview.

In any case, the denial must be couched in careful language, without abruptness and with every effort to give the least possible offense.

The letter turning down the application should be written as promptly as possible after the decision has been reached. In most cases of new accounts which must be declined, the store has definite reasons for the refusal to grant credit at all or to grant it only up to a certain limit. These letters declining to accept such applications and in turn soliciting a continuation of business on a cash basis require a most careful diction, exactness of expression and courtesy, giving detailed reasons for the action.

# RETAIL CREDITS AND COLLECTIONS

*John Wanamaker New York*  
*Philadelphia - London - Paris*

*Office of the*  
*Credit Manager*

May 29, 1918

Mr. John Doe,  
784 Broadway,  
N. Y. City

Dear Sir:-

Referring to your request for an account we write to inform you that the references given while speaking highly of you, give us very little information as to your financial responsibility, and as it is on this point we seek information we ask to be favored with additional references.

Yours truly,

John Wanamaker New York

By

# HANDLING APPLICATIONS FOR NEW ACCOUNTS

*John Wanamaker New York*  
*Philadelphia - London - Paris*

*Office of the*  
*Credit Manager*

May 29, 1918

Mr. John Doe.

784 Broadway,

N. Y. City

Dear Sir:-

We esteem it a privilege to enter your name on our list of charge customers, and we shall be pleased to honor such orders as we may be favored with; bills being rendered monthly.

Trusting that you will find it convenient to avail yourself of the facilities of our business, we remain,

Yours truly,

John Wanamaker New York

By

Credit Manager

## RETAIL CREDITS AND COLLECTIONS

While they are dictated to avoid giving offense, they should not weakly convey the decision to refuse credit. The explanation must be earnest and full of common sense. There must be no reflection, direct or indirect, upon the applicant's intentions where the reason for the turn-down may be ascribed to circumstances which confront him and which are beyond his control.

Any reference in the letter to the rating bureau, as the authority on the basis of whose report the reader's application is being refused, should be avoided because of the fact that it puts unpleasant emphasis on the applicant's past record elsewhere, giving him needless cause of resentment, and at the same time discloses to him the direction from which unfavorable reports on his habits of non-payment are coming. There is a certain amount of healthy influence on the mind of the unacceptable applicant from the turn-down, courteous but firm, which leaves him in doubt as to the real source of the information on which the refusal is based.

The experience of being turned down is not necessarily a new one with the undesirable applicant who is not entitled to credit. He has quite likely been refused before and compelled to pay cash for his purchases. He will, however, in such an event, naturally deal with the store that offends him least.

**Classification of Accounts for Ratings.** One Eastern department store classifies its accounts by ratings as follows:

1. Employees accounts.
2. Temporary or "accommodation" accounts.
3. \$25 accounts.
4. \$50 accounts.
5. \$100 accounts.
6. \$500 accounts.
7. Unlimited accounts.

## HANDLING APPLICATIONS FOR NEW ACCOUNTS

The form on which new accounts are entered is shown here, with the form to carry additional classification data as compiled later.

### NEW ACCOUNT

No. \_\_\_\_\_

Name \_\_\_\_\_

Residence \_\_\_\_\_

Business \_\_\_\_\_

Reference \_\_\_\_\_

Remarks \_\_\_\_\_

# RETAIL CREDITS AND COLLECTIONS

## ADDITIONAL

No. \_\_\_\_\_

Name \_\_\_\_\_

Residence \_\_\_\_\_

Business \_\_\_\_\_

Previous Rating

Special Rating

Present Rating

Reference \_\_\_\_\_

Remarks



## HANDLING APPLICATIONS FOR NEW ACCOUNTS

Some stores do not use a regular classification of credit limits, but, instead, make use of a secret code to designate the rating of each account. Instruction as to the limit is in such cases given verbally to the store's authorizers, doing away with any printed list of the limits fixed.

**Fixing Credit Limits for Individual Buyers.** As has already been suggested, every account at the time it is opened should have a definite limit placed upon it beyond which in the judgment of the credit office it will be unwise to O. K. purchases on charge accounts.

This is accomplished best by asking the customer what limit he himself wishes to place. This amount should be mentioned again in the letter advising the applicant that the account is opened.

These limits are difficult to watch, but they can be entered on the credit card, the ledger, and the margin of the bill. There is no more reason why limits should not be placed on all new accounts, especially the minor ones, than there would be for a bank to make loans of indefinite amounts.

When purchases for any one month have reached the limit set, the account should be referred to the credit manager. It acts as a danger signal, calling attention to the account and automatically bringing all further purchases to the head of the credit office for approval. When this stage is reached, the limit may be changed, or the purchases held until satisfactory arrangements are made by the customer for further credit.

Of course, with thousands of accounts on his books, changing daily, it is impossible for the credit man to keep informed regarding the exact status of each of them. But with a limit placed on each card or bill, the book-keeper or billing-clerk can notify the credit man the moment the limit is reached.

An Ohio merchant who does a \$35,000 business a year,

## RETAIL CREDITS AND COLLECTIONS

three-quarters of it on a credit basis, and loses but \$150 in bad accounts, says:

I find that the best time to talk to a customer is when an account is first opened. Granting credit seems like a favor then. I make it plain that the terms will be rigidly enforced, and it is seldom that an applicant will not agree. Of course it is necessary to use some discrimination in fixing the limit, but by learning a man's salary and the time of his pay-day I don't have much difficulty. I arrange it, too, so that my clerks know whether or not my customer is in good standing. I use a filing-cabinet for the original sales slips as an account register. The total is carried forward each time a new slip is made out, so the last slip always gives the total amount due. I attach a red cardboard, showing the time and amount limits, to the clasps that hold the sales slips in place. If the amount of the purchase added to that already owed exceeds the limit shown on the red card, the clerk notifies the customer.

**When to Raise the Limit.** If a customer keeps his account strictly up to date, the retailer will probably be willing to extend his limit of credit when requested. This limit should not be raised, however, until he has made proper application, because the limit serves to keep a check on the account that would not be available otherwise, and impresses the customer with the conviction that credit is a precious possession that must be safeguarded both by the giver and by the receiver.

Sometimes it is better to refuse to raise the credit limit even of good-paying customers. The merchant's acquaintance with them might cause him to decide to let their trade go elsewhere. There isn't much likelihood of losing trade by such a refusal to raise credit limits, because it is not difficult usually to demonstrate to any customer that such a raise would not be for his best interests. The average person is honest. When he defaults in payment it is usually because he has gotten beyond his depth rather than because he is

## HANDLING APPLICATIONS FOR NEW ACCOUNTS

dishonest. By keeping customers well down to safe limits, therefore, the merchant is doing his customers a real service and at the same time minimizing his chances for loss. With unlimited credit at a store many an honest person is tempted to buy recklessly. It is easy to buy things and have them charged. When prompt settlement is not insisted upon these easy-going customers doubtless will add still more to their unpaid bills. The amount may easily get beyond their ability to pay. They get discouraged and then go to another store. Thus the retailer loses both trade and the money due him.

## VIII

### AUTHORIZING CHARGE PURCHASES AND KEEPING UP CREDIT RECORDS

**Classification of Purchases.** A Montreal merchant who was talking, not long ago, to the credit man of a wholesale house, pointed out a woman entering his competitor's store just across the street, and said in an aggrieved tone: "That woman ought to be buying here. We made her wait a little longer than she thought was necessary to O. K. her order for charge the other day, and now she's quit coming here."

It is not unlikely that the other merchant to whom this customer had gone could tell a similar story about people leaving him for his competitor's store across the way for the same reason.

This question of investigating and checking orders is one of serious perplexity to the retail merchant generally. "Anything that helps to cultivate the customer's good-will, to make it easier and more pleasant to buy, especially in these times of keen competition, may be recommended as an asset to the retail store," remarked one of the executive heads of a well-known New York specialty-shop recently.

His observation was made in connection with a discussion of the unnecessary inconveniences and the annoying incidents to which customers are often subjected, but which might easily have been avoided, and repetition of which weans many patrons annually away from a store's clientele.

## CHARGE PURCHASES AND CREDIT RECORDS

**Problem to Prevent Delays in "Charge Taken" Sales.** As he went on to explain, the more desirable women customers are usually most easily offended. For example, there is the woman who hasn't much money, but who is exceedingly sensitive perhaps because of that fact. She is quick to resent anything on the part of an employee that may be interpreted as a slight. Such women are usually good customers, pay scrupulously all that they owe as soon as they can—again a matter of pride. No sane storekeeper will permit, if he can help it, the loss of a single customer—especially a woman customer. Probably the policy causing more losses of customers than any other is one where the possessor of a charge account is offended at being detained unnecessarily in a store aisle while her credit is obviously being "looked up."

The customer feels—is made to feel—by the fussing around, that she is under suspicion. It may be supersensitiveness, but nine women out of every ten experience this feeling under these circumstances.

It is a storekeeper's duty to see that the work of years on his part to build up a store's trade is not pulled down by such tactless lack of consideration on the part of his employees.

Every customer has the feeling, though it is not necessarily a well-justified one, that, after having had her ability to pay for merchandise purchased on credit looked up when she made her application for a charge account, she is free to use this account without being kept under surveillance, so to speak. Of course the credit department that knows its business will maintain a reasonable amount of such "espionage" over every one of the accounts.

**Placing Responsibility for Identification.** The first essential to authorizing of "Charge taken" purchases is the proper identification of the purchaser as a customer with a charge account in good standing, or one entitled to buy for such a customer. In most department and specialty-stores

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the floor man is given responsibility for authorizing such purchases up to a certain limit—say twenty-five dollars.

It will be seen that much of the favorable impression of a store's manner of treating its customers will be reflected in the attitude of the floor man to the customer on such occasions. He is usually content with a simple question to the purchaser as to his identity, backed by the display on the customer's part of some form of identification in the shape of a letter addressed in the name and address given for the charge.

In some stores clerks in certain departments are permitted to authorize charge purchases, as, per example, Lord & Taylor, New York City, when purchases are made on the store's main floor and the amount does not exceed ten dollars.

The use of coin systems, by which the possessor of a charge account has been provided with a metal coin to indicate an authorization to purchase within certain limits, will serve to spare the customer the need for further identification and its resulting delay and occasional embarrassment.

Buyers and other store executives are frequently allowed to authorize purchases also.


Most customers realize that the store places a limit on the amount they can charge, but, when they have never even approached the limit, and have always settled with fair promptness, to be obviously "looked up" at every small purchase is, to say the least, chilling in its effect, making one feel that she is not receiving the treatment to which her standing with the store has entitled her.

The merchant who fails to assume a "put-yourself-in-the-other-fellow's-place" attitude nowadays doesn't get very far in the retail business.

**The Card System of Authorizing Purchases.** The way to prevent ill-feeling on the customer's part, and at the same time safeguard the store's interest, is simple enough. One

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New York store uses the not unusual method of furnishing the successful applicant for a charge account with a numbered ticket containing the firm name, a lithographed design, and

Account No. <b>5518 F</b>		Private Identification Card
Bronx Store		Also at
Third Avenue, corner 163rd Street		16-18 Warburton Avenue Yonkers
	Washington Heights	
	Amsterdam Avenue, corner 148th Street	
<p><i>This registered card extends privileges of an open account, settlement of which may be made in small amounts, weekly or monthly, within a period of one year. Upon presentation of this card no first payment will be required and no extra charge will be made for credit accommodations.</i></p>		
<p><i>Goldburg Furniture and Carpet Co.</i> Amsterdam Ave., cor. 148th St.</p>		

the customer's number printed at the top or bottom. The customer's name does not appear on the card. Provided her account is in good condition, the customer can always secure merchandise at the counter on presentation of the ticket, without reference to the credit department. The bookkeepers receive a slip of the usual sort, containing space for the credit limit or change of limit, and other necessary data about the customer and the account. The receipt of this slip is the bookkeeper's authority to open the account. Should the limit be reached, he immediately notifies the man at the credit desk by sending him this slip, with the required information on it.

In one of the department stores of Everett, Washington, this credit-card system has been worked out very effectively. Its credit customers are divided into four classes, designated by A, B, C, and D. These letters appearing on the card

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indicate the amount of credit to which each customer is entitled. They do not authorize unlimited credit, as might be supposed, but, on the contrary, are intended only to take care of ordinary purchases and set the limit for one day's shopping at a time.

Class A, for example, indicates that the customers holding such cards are entitled to credit to the amount of five dollars at any one time. Class B calls for ten dollars credit. Class C, fifteen dollars. Class D, twenty-five dollars.

So the card bearing the letter A prefixed to a number will limit the holder's purchases to five dollars at any one time, unless special arrangements are made. The number 791, for example, which follows the letter A on a card, means simply that there are 791 cards out in this class.

Accompanying the credit card was a letter sent to the customer, explaining the method of using these cards. Here it is:

Dear Mrs. —

We take pleasure in handing you herewith our credit card.

Presentation of this card at the time of charging your purchase will relieve you of any wait or annoyance in having your items passed through the credit department, and in this way we will be able to serve you quicker and better than ever.

Possession of this card does not necessarily mean unlimited credit, but the intent is to take care of your ordinary, every-day purchases. Extraordinary purchases will be arranged with the Credit Department, as in the past.

In case of loss of your card, please notify us at once, so that we may cancel it and issue you a new one.

Your co-operation in this matter will be greatly appreciated.

Yours for better service,

---

Credit Department.

Terms: Dry-goods and Millinery, 30 days.

Cash: Furniture, Carpets, and Crockery.

30 Days: Cash or payments.



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Naturally, if any one wants to buy a complete outfit of furniture or something of that sort, he confers with the credit department personally, anyway, so there is no need of explaining further. There is no question but what the credit cards speed up purchases. If a man has his pass all ready when he goes through the gate, the ticket-taker does not stop to question him regarding his credentials, but if he has left it home he naturally has to prove his identity before he can be allowed to come in.

**The Credit-authorizer's Book.** In many larger stores there is an automatic credit system in force, whereby a machine and tubes do the work of these cards, but in many stores this is not feasible and is too expensive. In fact, this was exactly the case in this store. It was found that it would be too much labor and expense to install this automatic system, so the card idea was worked out instead, and has been proving very successful.

Now the customer presents her card, the clerk notes down the number, and the credit is automatically granted. When the slip comes into the credit department it is looked up in a book, with all the numbers arranged in order, followed by the name of the person to whom the number belongs. In another book are entered the names of people to whom cards have been issued, with their numbers and the class of credit to which they are entitled. There is no possibility of a mistake, for if a person wilfully or unintentionally gave the wrong number, it would be discovered when the slip was checked up.

The inspector is supplied with a printed book, corrected daily, showing the condition up to the moment of the account of each customer on the store's books. This credit-book has a hundred numbers on each page, with spaces for characters to indicate the account's condition. Where the space is open, merchandise may be delivered within the amount,

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without reference to the credit department, up to, say, seventy-five dollars.

Suppose there is a check mark after the number; then goods up to the value of five dollars only may be delivered without asking permission at the credit desk. If a cipher follows the number, it means that goods worth more than two dollars should not be delivered without first consulting the credit department, while a double "X" after the number means that nothing at all should be delivered without the O. K. of the credit office.

Each page of the book is numbered at the top, so if the inspector is searching for, say, No. 7,542 he would refer to page 75 and run down to the No. 42 on that page.

It is easy to maintain such a record, because no account need be referred to except those whose status has changed during the day. The notations are made in pencil so they may be erased whenever changes are required. By this means customers are served rapidly and are not aware that they are being "looked up," leaving the store satisfied and feeling that they are receiving personal favors from the store.

It is part of the plan, while the inspector is getting the desired information about the customer who has come in to charge a purchase, to have the saleswoman distract her attention by trying to show her something which she thinks may please her.

Every inspector makes it his business to be readily accessible to call from the salespeople, to avoid delays in running through his books for the customer's record. As most people having charge accounts like to keep them as an accommodation, such accounts are, on the whole, rarely abused. Records are so filed in the credit office that the response to the inspector's call for information, over the 'phone, is given almost instantaneously.

If a customer's account is found to be in a condition that

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does not warrant an extension of credit at the time, the customer is asked politely to go to the credit office, with the explanation "we have orders this week to refer all charge accounts to the credit office." The customer, not feeling as if she had been singled out and therefore resentful, does as requested, where she is brought into contact with the man in charge for the purpose of making an adjustment. A special telephone is provided in each section or department for the inspector's use, connecting with the credit office. The customer is never allowed to overhear the inspector's conversation.

**Authorizing "Charge Sent" Purchases.** In the case of small articles, they are packed at once and credit is authorized by a credit-authorizer stationed in the delivery department for that purpose.

In some stores where old, experienced men are employed authorizers may depend largely on memory in making their decision. There have been cases of marvelous memories developed in long years of service by such men by which the very minimum of errors have resulted. In other cases a Rand index or some similar type of visible index for ready reference has been used very effectively.

In the cases of large articles, or where alterations are to be made, the sales-slip is sent to the credit department to be authorized before the package is wrapped. The O. K. telephone may be used for such cases, also, although this is seldom done except at the rush end of the day.

**Watching for Changes in Customer's Credit Standing.** Having once passed favorably on an application for credit, it does not follow that the conditions surrounding the account are always going to justify the same confidence in the customer's paying prospects.

Inasmuch as everything about us is subject to constant change, it follows that no credit office can afford to relax one whit of its vigilance after the account is open.

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Naturally the changes that develop to affect the paying power of a customer will be most apparent, and will be brought most directly to the notice of the man at the credit desk in the process of following the customer's account month by month, by the attention he pays to bills and statements for purchases made.

With hundreds of accounts to handle, however, it would be hardly reasonable for the credit office to note quickly enough the symptoms of approaching delinquency without the help of a carefully organized procedure for gathering and recording additional data regarding customers which might eventually affect the quality of the account.

Various measures are taken to enable the man responsible for the credit management of the store to keep watch over his accounts. The service of the news-clipping bureaus, for example, contributes an often unsuspected flow of information about people, more or less prominent or notorious in the community. Systematic study of the court records of actions brought and judgments rendered offers many an illuminating side-light on the affairs of a customer which may have a direct bearing on his account standing.

Records of real-estate transactions, registering of deeds, and information of the kind which would indicate a sudden change in financial condition, have a definite meaning for the wide-awake credit office.

**Keeping Credit Information Up to Date.** To keep the credit files clear of dead material, and to show at a glance the latest report on the financial condition of any customer, one credit man devised a special folder with flaps carrying punched holes for the insertion of paper-fasteners.

Papers which were to be kept as part of the permanent record were attached to one flap at one end of the folder, while ordinary papers, such as requests for payments and adjustment letters, all more or less temporary in their bear-

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ing upon the account, were attached to the other end of the folder, the idea being that they may be taken off and destroyed as a unit at the end of six months.

Spaces were provided on the folder for name and address, credit limit, and other information of the kind for use in consulting the records. In columns additional spaces were made to indicate the exact condition of the account for each month.

It was customary for the credit man in each case to study carefully each individual's account folder on the average of every three or four months, make a new summary and digest of the condition of the account which would afford the latest decision in reference to the treatment to be accorded this customer.

**Reviving Dormant Accounts.** More than once in the statement of the retailer's credit problem it has been shown how closely the work at the credit desk affects the store's other activities.

Not the least important of its functions is to watch the buying history of its accounts, with the idea of singling out those which for one reason or another have become inactive or dormant through non-use. Realizing that an account which it is worth while to accept in the first place is worth keeping active, and keeping in mind the obvious fact that it may take months of excellent service to the customer before an account may be developed into one which will repay handling, it is only common sense on the part of the store's manager to go out of his way to find out why once good and profitable accounts occasionally lapse into inactivity.

An excellent example of one store's effort to revive accounts and to bring them back into activity is the one reproduced here, the letter written by Lord & Taylor of New York, which was accompanied by an addressed envelope,

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ready stamped, and a plain bristol-board card on which the reader of the letter was invited to make his reply. This letter is said to have brought a high percentage of returns and purchases of nearly \$200,000 from former customers.

*Lord & Taylor*

NEW YORK

EXECUTIVE OFFICES

April 29th 1918.

My dear Mrs.

Our Credit Manager has just stated to me that, judging from your account, we have not had the pleasure of serving you for the past several months. We are inclined to think that this must be due to your absence from the city, but our interest in your account, and in serving you satisfactorily, prompts me to inquire if it is possible the reason has to do with our merchandise or our service.

We thank you in advance for the courtesy of your reply, and we enclose a self-addressed, stamped envelope for your convenience.

I take the opportunity of enclosing some interesting advance information about an important occasion which is to occur shortly. This event has not yet been announced to the general public and I think you may wish to participate in it before the general announcement.

Very truly yours,

LORD & TAYLOR

*George E. Merrifield*  
Treasurer

## IX

### HANDLING COMPLAINTS AND ADJUSTMENTS

**National Conservation and the Handling of Returned Goods.** An investigation conducted recently by the Commercial Economy Board, whose work is being carried on by the War Industries Board at Washington, clearly indicated that a large amount of unnecessary work was involved in the handling of returned goods. Through competition in service the original privilege of returning merchandise was greatly abused. In many general stores the returns were found to be from 20 per cent. to 25 per cent. of the total savings. In well-systematized stores goods passed through many hands from the time sales were made until they were actually delivered. They had to pass through the same number of hands when returned, and obviously through the same number for resale. This practice made a large amount of unnecessary labor, which in this emergency should be avoided. It was, therefore, recommended to retail merchants that customers be encouraged to inspect merchandise carefully and determine definitely whether it suited their purpose or not before purchasing, and that the privilege of returning it be restricted to three days.

Many stores in this country are now finding the two-day restriction entirely satisfactory, but in a conference with merchants it was decided that three days would be entirely fair to all concerned, and as it means three days in the cus-

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tomer's possession, it can be applied with equal fairness to all customers, whether living close to the store or at a distance.

Reports of the operation of this plan have been received from many stores in our large cities, which indicate that the credits for returned merchandise have been reduced by an average of 36 per cent. This decrease has enabled these stores to utilize the service of many employees for other work.

**The Story of the Rice-boiler.** One of the larger department stores in the Middle West has had a rule, in common with other department stores in the same city, that after five days no goods may be returned by the purchaser for any reason whatever, and that in any event goods returned must always be in the original package.

One of the best women customers of this store bought some household utensils, among which was an enamelware rice-boiler. The boxes were opened by the housewife, the goods taken out, and the boxes thrown away. Since she had no use for the boiler for over a week after its purchase, she did not discover that a large piece of enamel had been chipped off inside the boiler, making it practically worthless.

The housewife called up the store and asked them to send a new boiler and to take back the damaged one. After being referred from one person to another, until her patience was exhausted, she was finally asked to give the number on the bill sent, the date, and a lot of additional information that, to the customer, already impatient at the store's manner of handling her request, seemed like useless red tape.

Finally she was told that her purchase would be investigated. After waiting two days and hearing nothing, she called up again, only to be told of the store's rule that made it impossible for them to take back the article. Then, to cap the climax, the clerk doing the talking displayed the incredible lack of tact to suggest that, in all likelihood, the



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rice-boiler had become damaged in the housewife's possession.

By this time the customer was thoroughly aroused. Taking the rice-boiler with her, she marched down to the store. She left it there, with a piece of her mind. Now she trades with other stores, even though they may have exactly the same rules regarding returned merchandise.

**The Relations of Adjustments to Credits and Collections.** There are several points of interest to the credit man in this little incident. One is the fact that such things, happening every day, are allowed only too frequently to go uncorrected, to the untold injury to the store's business and reputation for service. No one can estimate the actual money loss every year to the stores of this country through the loss of desirable charge accounts, because of the failure to administer humanly the detail of the store policy, because it is left to the discretion of those who haven't the knowledge or the training to handle the task from the credit-office point of view.

It is never wise to be too technical with a woman shopper, or try to convince her of the unfailing need and wisdom of certain common regulations of business. In the first place, a woman shopper will almost never be persuaded that a business rule is right just because some one says it is. She must be made to understand the reasonableness of the rule. In the second place, she is likely to be interested only in her side of the question, anyway, and so be hard to handle in a way just to the store as well as to herself.

**The Credit Man's Relation to Adjustments.** Every complaint, no matter how trivial, has in it the germ of an excuse, not only for trading elsewhere, but also for delaying or refusing money due the store. It follows, then, that the credit man can well supervise also the handling of complaints, and in a small store actually handle them himself.

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In a large store, where there is a complete adjustment department, under a separate manager, all complaints of charge customers should be brought to the notice of the credit man, so that he may know at once how his credits and collections are likely to be affected and be guided accordingly.

On the store's part, then, the complaints received are perhaps its most direct and most valuable means for studying its position and value in the community. When it is remembered that every complaint has a live customer at the other end of it, the store will accept all complaints, no matter how unjust or how difficult to handle, as so many money-saving suggestions for improvement in the store's service. It is desirable, therefore, from still another point of view, that the subject of adjustments be considered in connection with that of credits and collections.

**What Rights Has the Customer?** With that broad view of the matter distinctly reflected in the store's policy, every retailer will concede certain rights as well as certain responsibilities to his customers. The customer has, for example, the right to expect from a first-class store clean, fresh merchandise, conveniently displayed, honestly priced, and courteously shown.

In addition to these fundamental rights, certain customs and practices have been developed to extend the store's service. The custom of sending goods out on approval is one of them, established originally by retailers as a special service in deserving cases, with the idea of extending as much accommodation as possible. The custom of delivering purchases for customers is another form of special service that is now demanded almost universally as a right. The privilege also is being much curtailed since the beginning of the war, and it is likely that many stores will drop it or limit it to one delivery a day in harmony with the suggestion of the Commercial Economy Board.

## HANDLING COMPLAINTS AND ADJUSTMENTS

It is not surprising, perhaps, that with the extension of the store's service through the offering of these special privileges to customers, and entirely regardless of the war, many new problems have arisen to be solved, many abuses of these privileges to be overcome. For instance, there is now a well-defined movement on foot among public-spirited people, urging shoppers to buy only such goods as they need.

**Rules for the Return of Merchandise.** As an example of the co-operative effort among merchants to combat the evil, the following "Rules for the Return of Merchandise" were adopted not long ago by the St. Louis, Missouri, Merchants Association. This is entirely in keeping with the suggestions of the Commercial Economy Board.

### RULE I

For sanitary and other reasons, the following articles cannot be exchanged or returned:

Bedding and mattresses.

Beds, cots, duo-fold beds and sofa beds.

Garments when altered as agreed.

Shoes which have been altered, or on which the buttons have been reset, or which have been worn or damaged.

Combs, hair-brushes, and tooth-brushes.

Hair goods and hair ornaments.

Rubber goods.

Women's neckwear and veilings.

Women's hats made or trimmed to order.

Remnants.

China and glassware.

All goods cut from the piece at the request of the customer, and Goods made to order, or specially ordered, which are not carried in regular stocks.

### RULE II

All merchandise will be considered sold and not returnable if in the customer's possession longer than three days. Merchandise will be returnable only when in the original condition and boxing, and accompanied by the sales-check.

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## RULE III

Christmas merchandise cannot be returned after December 28th.

## RULE IV

Wedding-gifts may be returned for exchanges only within thirty days subsequent to the wedding.

## RULE V

Lingerie dresses cannot be returned for credit or refund. But if lingerie dresses are returned in the original condition and boxing, accompanied by the original sales-check, and within three days, they may be exchanged in the same department for garments of different sizes or some other garments of a similar nature.

## RULE VI

These rules governing the return of merchandise will become effective August 1st. The publicity campaign to start Sunday, July 25th. Also there will be sent out on August 1st, with the statements for the month of July, an outline of the rules adopted.

The publicity campaign will be carried on through cards on display in each of the stores, circulars inclosed with every package of merchandise, and through the newspapers.

An appropriation of \$1,500 for use by publicity commission is authorized.

## RULE VII

No millinery is to be sent on approval, on and after August 1st, except millinery for mourning wear.

## RULE VIII

Customers in the habit of returning merchandise, and makers of unjust claims, are to be reported to the Credit Bureau and the Executive Committee of the Credit Bureau, so that such action as they may recommend in regard to the closing of the account may be taken.

Each member of the association will report quarterly the names of customers who during that period have returned 35 per cent. or more of all goods purchased. Customers in the habit of returning C. O. D. merchandise will be reported to the Credit Bureau for action.

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### RULE IX

A deposit of not less than 20 per cent. will be required on all C. O. D. purchases of piece goods, except telephone and mail orders. A deposit of not less than 20 per cent. will be required on all "will call" purchases, and also on furniture and other merchandise held for future delivery.

A uniform contract for "will call" orders will be used and will have been submitted to legal authority to ascertain whether or not the deposit paid by the customer can be held by the store.

### RULE X

Uniform non-removable tags will be used by all stores on ready-to-wear apparel, millinery, rugs, and so forth, in order to prevent wear or use preceding return.

### RULE XI

Superintendents and general managers will be given full authority to enforce the above rules, and their decisions will be final.

**Unjust Claims.** The experience of every store will furnish plenty of examples of claims made unjustly for credits, exchanges, or refunds. Efforts to establish reasonable safeguards against them are slow to produce tangible results, because too many women shoppers do not care who is inconvenienced, or who pays the bills, so long as they get what they want.

Here are a few specific examples taken from the experience of a store in Lincoln, Nebraska.<sup>1</sup>

*Customer:* "I would like to exchange this ball of number thirty cotton for number fifty."

*Clerk:* "This is not our cotton, so I cannot exchange it for you."

*Customer:* "I got this thread right here at this counter."

*Clerk:* "I beg your pardon, this is Woolworth's cotton, with their mark on it. It came from the Ten Cent Store."

*Customer:* "Now isn't that strange? One of my neighbors asked me to exchange this for her, and she said she got it here."

<sup>1</sup>S. A. Sanderson, vice-president, Rudge & Guenzel Co., Lincoln, Nebraska, in *Credit World*, March, 1917.

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A few days ago we went twelve miles into the country to investigate the complaint of a woman regarding the quality of some linoleum. We found that it showed marks where the men of the household had tilted in their chairs. We discovered, further, that this linoleum had been sold and put down five years ago.

A customer picked out a Georgette crêpe waist at our store on approval. It was sent out in a pasteboard box, neatly packed and in perfect condition; it was returned all crumpled up and wrapped in a newspaper, without any explanation. She evidently purchased one from another store, also, because the next day she came into our store with a package from another firm, and asked to see a waist like the one she had sent out the other day. The salesperson very obligingly brought out the identical waist; the customer objected to the fact that this waist was all crumpled up, and wanted a fresh one, to which the salesperson replied that this was the identical waist the customer had sent out the other day, and in the same condition as when returned to us.

The percentages of returns to cash sales in our own store for 1916 are about double what they were for 1915, and the percentages of returns on charge sales also show an alarming increase. Many of the big stores in other cities report that about one out of every five purchases are returned without reason.

**Disputed Claims.** The active ill-will of patrons who are dissatisfied with goods or service is the price of the failure to make satisfactory adjustments of complaint. Even with a broad-minded policy of adjustment in practice, it is not easy to write a letter or to conduct an interview with a customer which will grant the claim and satisfy the complainant so thoroughly as to increase his good-will toward the store. Yet this is the requirement that all adjustments must meet, and if it is difficult to accomplish this in cases where the house policy will permit a concession of the claim, it is doubly so in the cases where it is unwise to make an adjustment which would free the claimant from all his loss as he figures it.

It is the business, then, of the man who writes adjustment

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letters, or who receives complaints in person, to resell the customers on his confidence in the reliability of the goods or the service, at the time he makes the adjustment.

The first requirement of a man in the position of adjuster, especially where there is a dispute with some justice on both sides, is to have the right attitude toward the addressee. Unless the customer gets into a placated frame of mind he will not agree to any reasonable adjustment. The adjuster must get the proper attitude before he can expect the customer to get it. If the adjuster is angry the customer is sure to be. It is not always easy to maintain an even temper toward the person who makes accusations and claims, no matter how just. If the adjuster is going to do his best work, he cannot afford to let emotion interfere with his judgment. The successful adjuster will take note of every point in the claimant's statement that tends to indicate definitely what is the exact caliber of the complainant and what frame of mind he is in.

In general, it may be said that the best adjustment is one that is fairest to all parties concerned. Few, if any, business houses can afford to practise absolutely the policy which is based on the theory that the customer is always right. The spirit of this theory is admirable, but to apply it in all cases, without exception, would often mean unfairness to the customer as well as to the house.

While each adjustment must be handled with due regard for the particular circumstances, there are a few fundamental points that should be kept in mind as affecting all adjustments. One mail-order house prepared a list of "Inside Tips on Adjustment Letters." The following "tips" are quoted from it:

Welcome every complaint.

Sympathize with the complainant.

Show willingness to make right any wrong.

## RETAIL CREDITS AND COLLECTIONS

Avoid promises unless you are sure you can keep them.

Get at the facts of the case.

Avoid arguments—state facts.

Be courteous, but not effusive.

Cheer up all the time.

Avoid weak-sounding apologies—admit derogatory facts frankly  
—make good with deeds rather than with words.

Have a good reason for each concession.

Never suggest that you suspect the customer of dishonesty or carelessness.

Give the customer the benefit of any doubt.

Don't cause the customer inconvenience, especially for anything that is our fault.

Satisfy the customer, if possible, but be just as fair to the house as to the customer. That is the only kind of fairness that is fair.

**Trade Abuses and Credit Work.** Many of the privileges now offered to the customers of retail stores had their origin in the relations of retailers with the wholesalers and jobbers or manufacturers from whom they purchase.

For example, the trade practice of allowing discounts by retail stores to members of certain professions like dress-makers, milliners, or professional shoppers, developed on the theory that they in turn were buying material for resale and that they would purchase in larger quantities than the consumer. Since the war began many stores have discontinued all discounts except to their own employees.

In the same way, the practice of allowing the return of goods and cancellation of orders by patrons of retail stores is doubtless a reflection of the same practice in vogue between retailers and wholesalers.

Very few merchants are slow to pay their bills out of deliberate meanness, nor does a merchant become guilty of various trade abuses out of malice. Back of all lies the one great reason—want of funds. In the same way, the abuse of privileges granted by retail stores to their patrons is due to the same reasons, but complicated by the fact that



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the individual is less reasonable and more likely to be actuated by false pride, extravagance in taste, and the wish to put up a front.

If a customer's record shows a growing habit of making unjust claims, of returning goods without reason, of slowness in making payments, it is time for the credit man to take action.

**Credit Diplomacy.** The responsibility of the credit office extends, then, not merely to the granting of credit and the collection of accounts, but, through the exercise of these functions, to active assistance in the adjustment of differences, to the shaping of the policy of the store.

Some of the problems arising from bad or unbusinesslike practice on the part of customers, and which directly affect the accounts, are the following:

1. Demanding discounts to which customer is not entitled.
2. Making unjust claims.
3. Returning merchandise.
4. Cancellation of orders for goods to be made to order.

It is in the handling of such problems that the man in charge may display ability of high character, or, through incapacity to grasp the situation and handle it successfully, may become a mere follower of routine.

**Writing Letters to Bring Settlements of Disputed Accounts.** Tact, diplomacy, firmness of character, and broad-mindedness are essential in handling such problems, and since adjustments are usually made by correspondence, tactful and forceful letter-writing is also a prime requirement. The writer should be absolutely convinced of the justice of his contentions, and the strength of his position, before he undertakes to convince an erring customer. But he must bear in mind that it costs money to put a new customer on the books and that it is better to save one old customer whose credit is firmly established than to search for two new ones

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of whom nothing is known. Some stores figure that it costs \$500 to \$1,000 to get a new charge customer to the point where she buys regularly and will profit to the store. I think this figure is high; and of course it must always be a wild estimate, for there are so many factors to consider.

The complaining customer always thinks he has good grounds for his complaint—and in most cases he has. The credit man whose job is to collect the money due the house, in spite of the customer's reluctance to pay, can only do it by getting the customer's viewpoint and not by taking the attitude that he is trying to "slip one over on the house." The interests of the house are so closely bound up with those of the customer that it is difficult to distinguish between them.

**Salesmanship in Adjustment Letters.** The adjustment letter that attempts to resell to the complainant his former good opinion of the store, and thus induce him to pay his account, must have such a tone as to make the reader forget his feeling of displeasure and to impress him pleasantly and positively with the store's good intentions.

The letter, to be successful, must at least convince the customer of the store's desire to treat him squarely—that much is his right. When the store's attitude has been clearly stated, then the letter should get down to facts, point by point.

The following letter was received from one of the largest business houses in the country, in answer to the complaint of a woman who called attention to a mistake made by the repair department involving an electric curling-iron.

DEAR MADAM:

We were recently informed that you believed the wrong electric curling-iron had been sent you.

Kindly call at our adjusting bureau at your earliest convenience,

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bringing this letter with you and the iron sent you. We will then give the matter our prompt attention.

Very truly,

The use of the word "believe" was most unfortunate because, as she expressed it, "they know I know." She was very angry at the airy command to bring in the iron after they had made the mistake.

Of course she didn't do as she was directed. Instead, her husband wrote the store exactly what he thought of the whole mess. Numerous apologies followed. A special wagon called for the iron and brought back a new one, at a cost many times that of the iron when it was new.

A frank, tactful letter would have saved all the trouble, and the account as well. For a woman who is buying frequently at a store, for example, a letter like this might have been better:

DEAR MRS. BLANK:

You may be sure that we regret the mistake made in handling the curling-iron you left with us to be repaired.

We handle hundreds of articles in the repair department every day, and although a certain number of errors are unavoidable, we try to keep them down to as few as possible. We are sorry that the consequences of one such mistake has fallen upon you, and we welcome the opportunity through your letter to make at least partial amends by rectifying it quickly.

A messenger will make a special call for the curling-iron sent you by mistake, and as soon as possible return the right one to you, or a new iron.

The details will be handled by the adjusting bureau, where the matter is being referred for immediate attention.

Sincerely,

A common fault in writing adjustment letters is that of appearing over-anxious to please an angry complainant. It is a question whether more damage may not be done by

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overdoing than by underdoing, as in the case of the letter already quoted.

The reply to the following letter illustrates the point. The writer makes the mistake of using too many courteous phrases, the purpose of which is too obvious. The complaint follows:

GENTLEMEN:

I know a big concern like yours gets behind its merchandise with a guaranty of satisfaction. Therefore I am returning the inclosed tie, which I bought in your 14th Street Store. I have worn it five or six times. The price was \$1.00.

This tie is a disappointment to me. Please send me another one about like it, if you will, but one that won't fray out so quickly.

Yours very truly,

The tie was badly worn at the edges, and, although there was not much question that the material was defective, it was possible that the edges might have been scorched in pressing.

Here is the letter intended to adjust the complaint:

DEAR SIR:

Please accept our thanks for your very kind and courteous favor of the 30th, directing our attention to the unsatisfactory service given you by a tie purchased at one of our stores.

Rest assured that we are prepared to stand back of our merchandise under any and all circumstances. Furthermore, our one great desire is to have every customer thoroughly satisfied.

We take pleasure in inclosing herewith a new tie to replace the one you returned, and trust that it will give you a great deal more satisfactory service than the one you returned. If it should not, do not hesitate to return this one too.

Yours very truly,

In spite of the fact that the adjustment of the complaint was entirely satisfactory, this letter distinctly impressed the addressee with a feeling that the writer did not mean all

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he said. He seemed too anxious to please. Furthermore, the writer of the letter failed to create confidence in the new tie. Here is the letter <sup>1</sup> as it might be rewritten with the object of creating a stronger feeling of confidence:

DEAR MR. —:

Thank you for returning to us the unsatisfactory tie. The purest silk will sometimes fray out easily; or it may be that this tie was scorched when it was pressed. We regret that you happened to get this particular tie, but we are glad you took the trouble to send it back and give us this opportunity to send to you another which we trust will give you entire satisfaction.

Please remember that this company stands back of its merchandise with an unqualified guaranty of entire satisfaction, including ties made of pure silk.

Yours very truly,

The writer of this letter resells to the customer his confidence in this particular tie, and yet leaves a loophole in case this tie also fails to give satisfaction.

<sup>1</sup>*Business Correspondence*, vol. xii, 1917 edition. Alexander Hamilton Institute, New York.



**Part IV**  
**COLLECTION METHODS**





## X

### PLANNING THE COLLECTION SYSTEM

**How a Debtor's Mind Works.** Those who remember Dick Swiveller, the ne'er-do-well in Dickens's *Pickwick Papers*, will recall his reply to Fred Trent's sneering question if his memo. book of London tradesmen was a reminder to pay them what he owed.

"Not exactly, Fred," replied Dick. "I enter in this little book the names of the streets that I can't go down while the shops are open. This dinner to-day closes Longacre. I bought a pair of shoes in Great Green Street last week, and made that 'no thoroughfare' too. There's only one avenue to the Strand left open to me now, and I shall have to stop up that to-night, with a pair of gloves. The roads are closing so fast in every direction that in about a month's time, unless my aunt sends me a remittance, I shall have to go three or four miles out of town to get over the way."

Dick's reply gives a glimpse of the workings of the debtor's mind. The collection plan that will bring best results from the Swivellers among retail buyers is the one that remembers that most men want to pay their debts. It is the plan that sets the pace. When an account lags, it must be put back into its regular pace. When a debtor balks, the system must make a test of him. It must find the trouble, then get a settlement. If the fault is the store's, it must be made right,

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If the debtor only is at fault, the system must find out whether he is a cheat or simply a blunderer. If it is the customer's mistake, quick action will get the money and retain his friendship, provided it helps him pay. When the debtor cheats, the system must use the whip. He must be trained to come to time. The collection plan that is right must know its own limitations—when and where the final steps to force collection are worth while. It must know the road, then set the pace and train the debtor to keep it.

The man in charge of collections may be, and frequently is, one and the same with the credit man. Whoever he is, he is expected to produce definite daily results in hard, cold cash, which are necessary if the business is to live. Careful and effective collection procedure begins with the opening of the account. The record made at that time, of information regarding the customer, is the basis on which his treatment from a collection standpoint will be founded.

**Making Clear the Store's Policy.** Having recorded the exact information needed to catalogue accurately each charge customer, every store proprietor must determine upon a definite policy to be followed in the collection of its accounts. This policy must be made to fit the nature of the business, the class of the store's patrons, and the conditions existing in the community generally.

Among the important things to be impressed upon the customer, and the thing that the store's collection plan must continue to impress, is the terms on which the patron's trade is to be accepted. The customer must understand definitely what his obligation to the store is. This is best accomplished by the explanation given verbally at the time the account is applied for, and later confirmed by letter to the applicant when the account is finally accepted.

The store's salespeople should know enough of the credit and collection requirements of the store to enable them to

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answer intelligently questions relating to accounts which are quite naturally put to them in the course of direct contact with customers.

**The Policy on Following Up Accounts.** Almost all city retail stores consider accounts due on the 10th of the month following the date of purchase. Not all stores fix upon the same length of time, however, which may elapse before calling the account more directly to the delinquent customer's attention. One credit man files each day the list of accounts opened, "tickled" ahead forty-five days. When that date comes up these accounts are checked against the ledgers. Any of those which have not been paid are referred back to the credit man for action. Under ordinary circumstances this is made the starting-point of the store's collection policy.

Most concerns make some effort to classify accounts into groups according to the condition of their payments. Each group then may be given different treatment, according to the circumstances. The collection man of one concern has devised a system which automatically brings to his personal attention all accounts which at any time reach one hundred days past due. A special card is used on which each account in this class is carried, so that they may be readily identified.

In arranging the details of the store's collection system questions like these, "What are to be considered as the usual terms?" "How closely are collections to be made?" "What leniency shall be shown to delinquents as a class?" suggest matters to be determined only after the most careful consideration.

**Testing the Policies.** The system, once installed, should not be condemned too hastily, even if it does not seem at first to come up to expectations. Give it time for a thorough try-out. Improvements can be introduced as defects develop, or as new and unexpected conditions arise. The object should be to perfect the existing plan rather than to

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substitute some other in its place. Changes must be made to remedy defects and to keep pace with growth in business. The history of every successful collection plan is a chronicle of constant development and adjustment.

The test of a collection system is one that permits no haphazard action, that provides definite procedure for all known contingencies, that insures promptness of attention, that insures proper attention at the right time.

**The Monthly Statement.** It is the almost universal custom to send a statement to the customer on the 1st of the month following the purchase of goods, and to list on this statement the items purchased during the month. Because they are customary, these statements are not looked upon as "duns," but as a mere reminder or memorandum to the purchaser. They are a convenience to him because they record the purchases as they appear on the store's record. Then, if there are any errors or misunderstandings, on either side, as to the goods bought or the prices charged, such differences are discovered and can be adjusted. The matter being fresh in the minds of all those concerned, this can usually be done without arousing any ill-will on the part of the customer—something very desirable in these days of keen competition.

As a suggestion for war-time saving considerable discussion has recently been given to the plan of omitting the items on monthly statements, urging customers to keep their sales slips for checking purposes. The consensus of opinion at the convention of credit men, where the point was brought up, was that it would be too radical a change to be readily effected, however.

It is a frequent practice, and one to be commended in certain lines of business, to include with the statement a letter or printed folder calling attention to special sales, or certain lines in which the customer may be particularly in-

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terested. This plan not only offers a most direct and effective means of advertising to a preferred list of customers, but goes far to give the impression that the store's interest in the customer does not end when it gets the customer's money—that it desires and appreciates a continuation of patronage.

**The First Reminder.** After the first statement suggesting a payment due or expected within a reasonable number of days, stores generally do not send out another statement until the 1st of the following month and allow the customer until the 10th before writing or sending a collector. A large number of city stores close an account if not paid by the 10th of the following month (for instance, if the account of June 1st is not paid by July 10th), re-opening the account later if payment is made in reasonable time.

The customer's character and standing, and the particular line of trade, will determine the method by which the account is handled from this point on. Especial consideration should be given to these early steps of the collection plan, so that the customer's good-will may be kept, and at the same time so that settlement may be secured.

**The Collection Follow-up.** Many stores use for the subsequent follow-up of accounts a regular series of form letters. Although they are not necessarily multigraphed, these letters can be used most effectively only when delinquent accounts are carried on collection cards. Such cards are merely marked with the name and address and ledger folio of customer. They have the months of the year printed on them, with a space after each month, and the bookkeeper, instead of drawing off a delinquent list each month, enters the arrears on these cards. The cards are kept in a permanent file and each month the bookkeepers go through them, making out cards for new delinquents, and change the balances on the old. On the back of these cards may be en-

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tered the dates of letters written, promises received, etc. The face may contain information such as customer's occupation, when account was opened, highest credit limit, his manner of payment or not paying, so that the collection correspondent has before him a history of the account and its exact status at all times.

A diary kept in connection with this system is used effectively. On the margin of the card a space is left for dates, and if the customer is written to on the 10th of the month, and it is desired that his card be brought to attention again on the 20th, then this latter date is entered on the margin, the cards handed to an assistant to "tickle" them, and the matter can, for the time being, be dismissed from the mind.

Should the account be handed later to an attorney for attention, this notation is made on the card. It can then be "tickled" and followed up systematically as before, and the attorney is far more likely to make persistent effort on those accounts which he knows are being watched regularly by the owner.

**Segregating Delinquent Accounts.** In a paper read before the 1916 convention of Retail Credit Men's National Association, Mr. A. Allina, based on ten years' experience with several St. Louis specialty-shops, outlined his collection procedure as follows:

The first and most necessary thing to do is to line up the delinquent or past-due accounts and segregate them into separate ledgers, collection cards, or various other good systems in use.

We divide our accounts into four classifications. No. 1 consists of the current accounts, comprising purchases for the past month and the month previous. No. 2 we classify as delinquent, and consists of purchases ninety days to four months old. We pull these accounts out of the current binders and carry them in two separate binders, which are indexed. No. 3 are classed very delinquent, and consist of accounts over four months old. This class is also separated into two separate binders, indexed. No. 4. In this class

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we throw all doubtful and bad accounts, and from this we select, once a year, accounts which are charged off to profit and loss. However, we do not eliminate them from our collection follow-up, but carry them along in this binder indefinitely.

After classifying these accounts according to the age of the accounts, then go ahead and use various forms of letters, collector's calls, and, in extreme cases, have the collection attorney or agency handle them.

The next important step is to have a consistent and as nearly perfect follow-up. This can be devised very easily with the numerous filing devices on the market. Persistent following up at regular intervals of five to ten days will bring excellent results in ninety-nine out of every one hundred accounts. The debtor receiving several communications and collector's calls will realize that the obligation must have immediate attention.

As stated before, we consider an account delinquent ninety days after the *date of purchase*, and not from the date of the first bill. To illustrate, an account covering purchases made in May is delinquent on the first day of August. We send out form "A" letter right after the bills, and statements are mailed on the last day of each month. We put a follow-up card into a dated index file (on 3x5 cards) about ten days ahead. Then, if the account is not paid we send form "B." The follow-up card is put ahead about ten days again. We also have our collector call between the time of the two letters, and he also follows up the account if results are not obtained at his first call. This method is used until all four form letters are used, unless the account develops into such shape that we have to use some other strenuous means of collection.

We also report an account that does not pay up promptly to our credit bureau, thereby warning other stores. We also use several forms of letters from our bureau, from which we obtain excellent results. We are gradually letting the buying public know that we are associated and that credit will be declined at other stores if accounts are not paid up promptly.

After the 120-day period we classify an account as very delinquent and we go after the money. Our sole aim is to get it. The biggest percentage of these accounts we are forced to close permanently and therefore must get the money in.

We have had good results within the past year with our collection attorney connected with the credit bureau, and at a nominal cost.

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We have also obtained excellent results in numbers of cases where all stores interested have co-operated jointly in collecting bad accounts. We sued several jointly, thereby reducing the expense involved to a small figure for each store, by pro-rating the costs.

**Psychology of the Follow-up.** The basis of every collection system is some definite plan for constantly reminding delinquents of the debt—the repeated suggestion that payment is expected and must be made. Suggestion offers the most effective means of stimulation to action. The constant repetition of an idea is in itself often sufficient to occasion belief or conviction, and hence action.

The debtor who has been forgotten by his creditor, or who, for any reason, has not received notice of his indebtedness, very naturally forgets the debt himself. Upon being asked to pay, without warning, his mental attitude is one of surprise. He feels an impulse to deny the debt. Having denied it, he naturally refuses to pay. In a case like the one mentioned, it is necessary to suggest to the debtor that he owes the money, that it is logical for suggestion to become a conviction, and spur him to pay. In the case of a forgotten obligation, suggestion is an easy basis for operation. The object is to occasion in the debtor's mind a gradual remembrance of the debt, and ultimately a conviction of his duty to pay. In almost every case where the debtor denies the obligation he does so from force of habit, and, having denied it, the constant suggestion that he still owes the amount must be depended upon sooner or later to bring him to the belief that the bill must be paid.

**Get the Reason for Delinquency.** Having denied his debt, the debtor will, with his gradual yielding to suggestion, seek a valid excuse to qualify his original denial. The best plan, therefore, in presenting a forgotten or neglected bill, is to go on the assumption that it will be denied. It is proper then to request the debtor to give



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you a reason why the bill should not be paid. This allows him to make the most natural response in the world, which is, that he does not owe it. Then, on asking for reasons, he qualifies his denial, making subsequent recovery much easier by fully answering his objections.

Constant suggestion of even an obnoxious idea may, sooner or later, occasion in the mind of any man one or two reactions. First, some doubt as to the validity of his own objections, or, second, the firm belief in the truth of the suggestion. That is why dunning wears down objection after objection. The debtor cannot maintain an attitude of absolute indifference in the face of repeated suggestions.

In the case of an honest obligation, he has either to "pay or fight." The longer the suggestion is presented to him, the less marked his belligerent attitude and the more likely the conviction of his error will become.

In making the first demand for payment a loophole must be left the debtor through which he can qualify his denial of the debt. Eventually, then, he may back down and pay without any appearance of belittling his self-respect. The moment will come when some newer creditor will cease to remind the debtor of a more recent bill he owes. The store's insistence, constant and forceful, on the payment of an older debt will induce the delinquent suddenly to pay and "to have done with it."

**When Debtor Calls at Store.** If the debtor can be induced to call at the store in reference to his past-due account, the collection man has him on his own ground, and should, in most cases, be able to get some definite and satisfactory adjustment.

In planning to bring about such an interview with a delinquent debtor, the collection man must keep firmly in mind the fact that the money is due, that the debtor is unjustly holding back from the payment of his account, and so must

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not be allowed to take on an injured air. The collection man should take full advantage of his surroundings. In the course of such an interview, the debtor is almost sure to begin with a hard-luck story, which may or may not be true. In either case, the collection man must show his interest in it. Let the debtor feel that he has a sympathetic listener, and his attitude will be friendly. This will frequently lead the debtor to tell more than he had originally intended, and will thus give a better idea of his actual condition than could possibly be obtained in any other way. It is good policy to offer no compromise or adjustment at an interview of this kind. Take it for granted that the debtor will pay the full amount. The moral effect upon him will be a feeling that the entire amount is expected, and frequently will bring a voluntary suggestion of a payment of part of the amount due, with definite assurances of further payments later. Having stated definitely just what he can do, and when, the debtor's offer will be possible of acceptance with a much better chance of fulfilment than if the offer had come from the collection man himself.

**Accepting Small Payments on Account.** In the case of wage-earners it may be wise to accept small weekly or monthly payments on account. The exact amount to be paid and the exact date on which it is to be paid should be clearly understood. Once an agreement of this kind is reached, the debtor must be made to feel that it is a real agreement and that the store will not only expect him to live up to it, but that it has implicit confidence that he will do so.

**The Personal Collector.** Sometimes it is well worth while for the store's collection man to go personally to interview his debtors. It has been found by some retailers that it does not pay to rely too much on the postage stamp to bring in slow accounts.

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Another merchant divides his accounts on the 1st of the month into two groups. The good-pay group he mails a statement to, and sends a boy on a bicycle to collect from the other slow-pay group.

One retailer, who tells of his success in following this plan, goes to see his worst delinquents each month. He takes an itemized statement to prevent dispute, thus anticipating any pleas for delay until the account can be verified. He says that when he looks a man straight in the eye, and talks with him, he is in a position to get better results. In the first place, he always secures an admission that the account is correct; next, if the debtor intends to pay it; then he explains that, the money being past due, he has counted on receiving it, and in nearly all cases he succeeds in getting a note or at least a definite promise of payment—one that he can depend upon. When such a promise falls due, he follows it with another call. A later chapter (Chapter XII) is devoted to this subject of collections by personal call.

**Keeping in Touch With Debtors.** A collection manager will find it a distinct advantage to place his desk in close proximity to the cashier's window, so that he can see customers who call to make payments, or for other purposes, and talk to them when it may be necessary to do so. If customers who call do not pay according to agreement, the cashier can acquaint him of the fact at that time, and he can take the matter up at once with the customer.

The importance of keeping close tabs on all movements of customers from one address to another is particularly important in relation to the collection accounts. Much valuable time is lost tracing debtors who have moved, often without any intention of evading payments. The plan of stamping all receipts, letters, and other communications sent to customers, cautioning them against the loss of time

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and confusion due to moving without notice of the new address, has brought good results.

A systematic plan for reports to be submitted by the store's delivery men on customers' movements offers another useful check on possible delinquents.

## XI

### COLLECTION CORRESPONDENCE

**Putting Salesmanship into Collection Letters.** Have you ever followed one of your collection letters in your mind's eye, letting your imagination picture its reading in the debtor's house or office? If your letter is commonplace, routine, lacking in character, it makes no impression. He tosses it into a drawer to await the day when the more urgent bills are pulled out and paid. If your letter is suddenly sharp or harsh in tone, the debtor thinks: "What's he going to do next? I'll find out just how far this chap means to go."

The collection correspondent replaces the salesman and the proprietor in representing the house to the delinquent customer after the sale is made. As the house representative he must try to secure the money due, but at the same time keep the debtor's good-will. Just as the salesperson was able to interest the customer, secure his attention, create desire to the point of completing the sale, so the collection letter must compel attention by awakening curiosity or appealing to reason and justice. Second, it must arouse interest through timely, intimate, newsy style. Third, it should ask for the money due in a way that will show the debtor's advantage to pay.

Good collectors put salesmanship into their letters, thinking not only of keeping bad accounts from rising above the established allowance, but also of increasing the volume of

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business the house is doing. They look to the future as well as to the past. When an account lags they find out what is the trouble and get a settlement. If it is the mistake of the house, they make it right. If the debtor only is at fault, they find out whether his intention was to cheat, or if he has simply blundered. When a debtor blunders they make it easier for him to pay. In that way they can get his money and his friendship by quick action. They remember that most men want to pay, and they do not consider any man dishonest until he has proved himself so. The debtor who has been hardened and aggravated by the ordinary, "Give me my money," will have a pleasant surprise if he is first shown a personal understanding of his case. A collector's cordial willingness to be reasonable will get him the money, while the man who flies to early threats must wait.

**Attitude Toward the Customer.** Most collection letters would be unnecessary if the writer knew exactly where the debtor stood on his account, or if the debtor knew how far the collector's attitude was final and had understood the terms of payment so that he could plan ahead to meet the obligation if necessary. When there is a really mutual understanding between the debtor and the collector there ceases to be a collection problem.

The collector's job is to build up this understanding as quickly, permanently, and definitely as he can. If he is obliged to depend upon the letters he writes to help him to do it, the collector must learn, sooner or later, how to put himself in the debtor's place and how to say the things in his letter that will interest, then convince, and finally impel his reader to favorable action—the making of the payment.

Collection letters, singly or when used in a series, should be planned to do just two things. First, show the collector

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as quickly as possible where the debtor stands. Second, to impress the debtor with the collector's firm, unhesitating program in dealing with accounts justly due.

To accomplish this two-fold purpose then, the series must first establish the terms of accepted payments beyond the chance of a misunderstanding. Next, they must keep these terms in sight constantly, making the debtor remember that they stand. They should make a firm, definite, conservative request, which is fair and which carries conviction. The whole series should grade up evenly in tone, as if there never had been or never would be a change in the definite policy back of them. The collector correspondent should keep away from the letter which has no personal touch. Even better than the series of dignified letters which studiously avoid throwing obstacles in the way of payment is the letter with the personal touch, which shows an appreciation of the reader's ambition, makes him feel favorably disposed toward the writer, appeals to his sportsmanship, coaxes him with fear of embarrassment. Form letters ought to be revised often enough so that whatever personal touch goes into them may not lose its effect by repetition to the same individual. As soon as the correspondent has developed the debtor's position—that is, definitely catalogued him—he must get entirely on a personal basis, making the appeal which it has been seen will bring the money due.

Next to a remittance, the best result a letter can bring is a definite date for a payment or a definite commitment from the debtor. The man who answers locates himself. He shows that he is open to reason, explains his situation, recognizes his responsibility.

**Mistake of Being Too Diplomatic.** Because credit and collection correspondents so often have to deal with delicate situations, it is natural that they should frequently carry diplomacy too far. The letters that are obviously diplo-

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matic are least effective. Sometimes a letter is best when it calls a spade a spade and apparently makes no effort to be diplomatic. In such a case the reader is usually impressed with the sincerity and honesty of the writer. Those qualities command respect. Here is an example of a letter that does not arouse in the reader any desire to pay, rather causing his resistance. Its chief fault is its apparent eagerness to avoid giving offense: <sup>1</sup>

DEAR SIR:

May I call your attention to the inclosed statement of a small balance of \$40, due on your account since April 1st. Your delay is no doubt due to an oversight, and we shall appreciate it very much if you will favor us with a remittance by return mail.

Yours very truly,

A successful rewording of practically the same letter as follows was used with considerable success by an insurance man who was collecting a small account:

DEAR SIR:

Our records of your account show a balance of \$40 due since April 1. According to the agreement, this amount was to be paid on the 1st of this month. Just put the inclosed statement, with your remittance, in the inclosed envelope and let Uncle Sam do the rest.

Yours very truly,

It has the direct, frank, honest statement of facts that gives the distinct feeling of confidence that the writer is right. These are the characteristics of a successful sales letter.

**Avoid Negative Suggestions.** A store proprietor finds himself in need of money; but that is not necessarily proof of short-sighted management. In fact, this call for cash at certain seasons is strictly normal. Feeling this pressure for

<sup>1</sup> Alexander Hamilton Institute, vol. xii, *Business Correspondence*.



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money, he begins to squeeze his customers, and a collection letter is sent out with the naïve appeal, "Having heavy payments to meet in the near future, we ask you to oblige with remittance." It is such an appeal that is negative and therefore to be avoided. The one excuse for collecting an account is because it is due. And in that event no apology is necessary. The only time when a store is justified in putting abnormal pressure on its customers and literally forcing collections is during a period of over-expansion in which credit is being strained, and that is the very worst time to do it.

Ordinarily, the first resort when in need of money is to go to one's customers and ask payments on account due without apology. The second resort is for the store to withhold money from its creditors and keep them waiting by means of extensions, renewals, claims, and various other makeshifts which threaten its credit standing. The third expedient is acute economy. Economy should be chronic. Either an expense can be eliminated—in which case it should have been cut out long ago—or it cannot be eliminated, and hence to economize in it is like throwing one of your engines overboard with the hope of speeding up the ship.

A little East Side New York girl, who, when asked to name the seasons of the year, replied, "Busy and Dull," stated one of the principles of business economy. Based upon the certainty that there will surely be dull seasons as well as busy ones for the store, the collector who makes certain, through everlasting vigilance in watching the following accounts in all seasons, is not going to wait until panic times and the acute need for money before he asks for it. When he asks for money due him his appeal can be made positively and not negatively or apologetically. To argue in a collection letter or to urge that you "need the money,"—this, by the way, is a very common appeal in

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collection letters—indicates that you are not ready to act. The debtor sensing your indecision is equally ready to advance his excuses and lets time slip. Again if the letter is a printed form, it suggests that you are not watching his individual case. He feels that the matter is not yet urgent.

**Successful Types of Appeals.** There are three basic appeals on which collection letters may be hung, all of them personal:

1. Appeals to good-will.
2. Appeals to pride.
3. Appeals to justice and fair play.

To secure the best results the debtor should be studied to determine the nature of the appeal to be made to him, the one that will reach him and get under his skin. This appeal must be directed to some of his emotions; which one can be best determined by the collector's knowledge of the debtor. There are a great number and variety of human emotions, as every one knows. Some of them lend themselves to collection letters. For example, the debtor may be reached through his good-will, pride, shame, honesty, saving, fear, or curiosity. All these are easily touched and all are powerful incentives to human actions.

Based on the collector's knowledge of the debtor, one line of appeal should be chosen, and then all effort concentrated on it. If there is some doubt as to the appeal which will be most effective, all of them should be tried, one at a time, to get the right one, to produce action.

**The Appeal to Good-will.** The appeal to good-will is probably one that can be used to best advantage in most cases. It is most simple and gives no cause for annoyance to the most sensitive. It may be used on any customer; therefore, especially on one of whose exact status there is an uncertainty. It should always be short and should assume the unquestioned good-will of the customer toward his cred-

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itor, without the slightest question or doubt that the appeal will be met with immediate response from such a customer. An example of such an appeal to good-will is the following:

DEAR MR. —:

If anything has come up to interfere with your promise to send your payment by the 10th of the month, you would surely have written us long before this.

Now that the hurry of the holidays has subsided you will want to attend to the handling of this payment on your account with your usual promptness.

Knowing how easily such things are overlooked, the inclosed envelope will be the most convenient means for sending your check for \$.....

Sincerely yours,

**The Appeal to Pride.** Every student of human nature knows that pride is one of the strongest emotions and the strongest kind of incentive to human action. The breadth of the appeal to pride is unlimited. Really all accomplishment is due to pride, and if the appeal to this emotion is skilfully directed, it is almost certain to produce the desired results. And so it is with the appeals to the debtor's sense of shame and honesty. When the debtor has learned to reach and play upon these emotions, almost any account can be collected. The following is an example of a successful letter appealing to the customer's pride:

DEAR MR. —:

You have been so considerate about co-operating with us in the past, that we feel we may rely upon you now to maintain your usual standard of payments on your account. Prompt remittances help us to give the very best measure of possible service to our customers.

If you will let me have your check, therefore, to cover your account past due, which amounts to \$...., you will be helping very materially to this worth-while end. We are counting on your continued co-operation.

Sincerely yours,

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**Appeals to Justice and Fair Play.** One of the most difficult problems faced by retail stores, especially dry-goods stores in which charge accounts are allowed, is to find a safe method of speeding up payments of customers who have let themselves get into the "slow-pay" class.

The collection manager of a New York department store has found the work of stimulating collections made much easier by working on the theory that the average "slow-pay" customer does not settle more promptly because the need for this action is not thoroughly understood. Most collectors hesitate to call customers' attention to payments that are not so prompt as they should be, to what may seem to them like a small matter.

This collection manager began a campaign based on the theory that it is necessary to do more explaining and less dunning. He met one of the store's charge customers one day. This woman, while "good," was "slow pay." She complained to him of the continual requests for payments from the store. Knowing that this customer was well able to pay an ordinary household bill, he was impressed, after his talk with her, that her attitude was due more than anything else to a lack of understanding of the need for prompt payments. She seemed to feel that, because she was responsible, the store should be perfectly satisfied to wait until she could find it convenient to give the account her attention.

After considering the matter, he concluded that there must be many others of the store's customers in the same frame of mind. Accordingly, letters were written from a new angle—with startling results. Payments began to come in more promptly. In just a short time practically all the store's "slow" accounts were brought down to a monthly settlement basis.

The point made in these letters was not that the account

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was overdue, but the important fact that in not settling promptly the customer was making a deduction, although not visibly, from the price of the store's goods. In other words, it was shown that the added cost of carrying the account had to be borne by all the store's customers, including those who paid promptly. The letter asserted the belief that the delinquent customer would not do that intentionally, and that the store was sure the customer would be glad to know the situation stated frankly, so that the real need of meeting bills promptly would be appreciated. Then the letter went on to show how prompt payments made the store more truly than ever one of single price to all customers. This plan was based on a simple appeal to justice and fair play.

**Use of Form Letters.** In collection correspondence, while no two cases are exactly alike, it is possible by a careful process of classification to so group the various accounts that the same letter will answer for more than one. The possibility of using form letters to advantage in collecting accounts is more apparent in the early stages of slowness and delinquency than in the later ones. Some collectors favor the use of letters that are obviously forms, because they show plainly that one is being treated exactly as others are being treated, and so give little offense to the sensitive ones.

There is danger, however, in such cases, that the use of a letter, obviously a form letter, may result in further delay, because it carries the definite suggestion that delay is common, that other debtors are in the same boat, and that the failure to pay is considered lightly by the creditor.

**Use of Form Paragraphs.** There is a distinction between using form letters and letters more nearly personal, because they are carefully fitted to the individual facts in each case,

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but which at the same time are constructed out of form paragraphs.

If you ask your stenographer to save copies of some of the longer and more important letters you write on stubborn cases for a period covering, say, a month, and then take the time to go over these letters critically, you can very easily pick out paragraphs here and there which will serve for use again and again in similar cases. These paragraphs, carefully boiled down and edited, then pasted in a book or on cards with some simple system of numbering the classification, will form the basis for an effective correspondence manual whose time-saving possibilities with a maximum of quality in your letters will well repay you.

Form letters or any other kind of letters should be written as you feel, not as you think they ought to sound. In every letter, no matter whether it is to be read by one or many, there should be some word or phrase or thought that brings the message close to the man to whom it is addressed.

No ordinary letter should run over three-quarters of a page in length. No one likes to read a letter longer than that. Collection letters, like any other kind, should deal with one subject only—the amount due. Direct, honest, frank statements that have a distinct ring of confidence in them are characteristic of collection letters. In the preliminary notice, however, sometimes in the letter itself, it is usual to insert announcements of a few offerings of goods which may interest the reader. In most cases, however, such announcements are best made in the form of a separate inclosure.

**Style, Appearance, and Tone of Letters.** The effect of the mechanical appearance of a letter is often compared to the effect of the clothes worn by a salesman. Nearly all people who know what is good form in letter-writing are affected unfavorably by the lack of it in letters that they

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receive. They expect good form as a matter of course. Correct style, appearance, and tone of a letter, therefore, are not so much a positive asset as they are a precaution. They ward off the possibility of unfavorable criticism on that score.

A plain letter-head without ornamentation is preferred by most business houses, particularly for collection letters. Sometimes it is possible to assist the purpose of the letter by the use of a special letter-head which will help to center the reader's attention on the message and give it additional force.

As for the tone of the letter, the language used to convey its message, it goes without saying that it must conform in every way to the policy and reputation of the house. Its choice of words, its mechanical arrangement of heading and salutation and closing, must be such that it will in no way distract the reader's attention from the meaning of the message itself.

## XII

### COLLECTING BY PERSONAL CALL

**When Personal Collectors Are Effective.** While many of the best stores have now dispensed with collectors altogether, and depend upon letters and statements backed by the telephone to secure payment of money due them, there are many more who continue to use both methods. The problem is largely one of getting the right people to act as collectors; for it stands to reason that the collections through personal representatives must be handled very carefully. The accounts credited to them for collection must be scrutinized to make sure that no mistakes are made.

It is agreed that to secure diplomacy, salesmanship, judgment, firmness, resourcefulness, persistency, and patience in the correct proportion that go to make up the ideal collector, for the salary that is ordinarily paid, is almost impossible. On the other hand, a poor collector is worse than none at all. There are times, however, when collections are better made by personal visits. Personal effort is sometimes effective after the resources of correspondence have been exhausted. Collectors are therefore still to be found in some of the larger mercantile concerns, and in certain lines of business where special conditions seem to require their employment.

**Selecting Personal Collectors.** In some stores the work



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of personally calling upon slow-pay customers is intrusted to a regular clerk from the store, who is given only a few names at a time to see, and who must turn in reports on all names intrusted to him before others are assigned. Obviously it is not always possible to find capable collectors ready trained and entirely trustworthy. Since they are subordinate to the collection man, and valued by him fully as much for the first-hand information they are able to secure as for the actual money they can collect, their employment and training is usually a part of his work.

There are several classes from which collectors are usually recruited. Not infrequently good men who could not otherwise be secured will take a collector's job for the sake of the outdoor work. Such men cannot be considered as entirely inexperienced, although the work of collection may be new to them. With the right kind of help and advice they may be developed quite rapidly into experienced men.

The other class from which collectors are frequently recruited consists of the young men about seventeen or eighteen years old who are looking for a first business job. There is even an advantage in hiring such people, for a bright, honest young man with no previous collection experience may be more easily trained than one older in years.

In employing a collector, no matter what his age or appearance may be, his references and family history should be the object of the closest kind of scrutiny and inspection; and as it is fairer both to him and to the house, the collector should in every case be bonded. The fact that he is accepted by a bonding company is good evidence that he is honest and has a clear record, because such companies never assume doubtful risks.

**Qualifications and Employment of a Collector.** Some previous business experience and a sufficient knowledge of bookkeeping to enable the collector to keep an accurate

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record of what he collects are desirable. He should be enough of a salesman to realize that he will obtain better results and more fitly represent his house if he is properly dressed and neat in appearance.

As people are apt to resent requests for money, even though they realize it is due, the collector will need to employ some tact in approaching the debtor on whom he calls. It goes without saying that he should be courteous as a matter of principle. At the same time he must be firm enough not to be easily put off or turned aside from the object of his visit.

Patience and persistency, with a minimum of sensitiveness, are essential qualities in the successful collector, if he is to meet the reproaches and abuse that he must sometimes encounter with dignity.

Since results are what the collection man wants, the collector must be energetic enough not only to cover his daily stint of calls, but to come away with the money due, or with definite promises which he can follow up later with success.

Just what the rate of payment for a collector's service should be will depend a great deal on local conditions. A good collector can earn from ten to twenty dollars, or more, a week. Another arrangement is to pay the collector a nominal salary and a commission on all he collects each week above a specified amount. Such a plan adds much to the interest in his work and to the results.

As a matter of fact, frequently the real value of the collector lies in the information secured by him so as to make it possible to collect a large number of accounts by mail. A collector is particularly useful in tracing debtors who have moved.

**Training of Collectors.** The importance to the house of proper training for the collector requires no special emphasis. To produce the best results the collector should be

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impressed with the necessity of working systematically. He should be made to feel that the manager is ready to give him help and advice when he needs it, and that the house is standing back of him in all his efforts. Once employed, a collector should not be discharged or replaced in his territory except for the best of reasons.

The knowledge he is able to gain of the accounts and of the store's customers gives him a constantly increasing help toward better results than would be possible for a new man. It is well also to remember that this information would be of equal value to a competing concern.

The collector should be systematically schooled to know the store's business, not that he may make sales for it, but that he may be able to discuss its accounts and its affairs intelligently when necessary. Unless he is more or less familiar with the details of the business he is at a distinct disadvantage when he is called upon to meet protests, objections, or evasions from delinquent customers.

**When to Appeal for Payment.** Two things for the collector to decide in presenting an account for payment are: 1. The best time for dunning a debtor. 2. The best place.

In answer to the first, it is necessary to determine, as far as possible, when the debtor will have the money. This involves a matter of income—when and how it is received.

Debtors will divide naturally into two classes: 1. Those in business for themselves. 2. Wage or salary earners.

Debtors still further divide naturally into classes or groups by particular business positions, like bookkeepers, clerks, and the like, and by payments of salaries. That is on the basis on which salaries are paid. For example, street-railway employees are all paid on the same date, and naturally fall into one group.

In collecting the accounts of people in business, since it is customary to pay current-expense accounts about the 10th

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of each month, the collector's approach a day or two before may serve the purpose of getting the account scheduled for payment with other bills. Jobbing houses and wholesalers usually have money in May, and the 1st of June, November, and December, when billing for spring and fall goods is liquidated.

With the general retailer, Monday morning should be a distinctly favorable time for presenting bills for payment, because the merchant has in his hands then the proceeds of Saturday's business.

Office employees on salary are usually paid twice a month, on the 1st and the 15th. Wage-workers receive their money, as a rule, on Saturday or Monday. Store employees receive their money on Saturday night at the close of business. The sooner the collector can get to these people after receiving their earnings, the better his chance for collection.

**The Awkward Call.** A method of personally collecting bad accounts in which a direct appeal is made to the emotions is known as the "awkward call," which, it will appear, is a method to be used only in very exceptional cases. The collector selects a time when there is a festivity in progress at the debtor's house. The collector, having learned this fact, calls. He makes inquiry for the debtor and, if he can do so, secures entry. He presents his account, insisting on payment. The debtor naturally demurs. The collector insists more urgently and more loudly. The attention of the guests is attracted, much to the discomfiture of the delinquent debtor. The results of the call will depend entirely upon the collector's ability and the financial resources of the debtor. If the collector is persistent and refuses to be daunted by threats or cajoled by promises, the money, in whole or in part, is very likely to be forthcoming. The collector may vary the procedure in several ways. He may present his bill when the debtor is attending an entertainment in the

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house of a friend, or he may interrupt him in the middle of an important business interview.

**Where to Appeal for Payments.** If the debtor is an employee, presentation of the bill at his place of employment may be resorted to, but, since this may result in the employee's discharge, thus incapacitating him from paying the debt, this method must be used with care. The debtor's knowledge of the intention to resort to this measure is often more effective than its actual fulfilment.

The "sweating process" is another variation of the awkward call. It requires a collector of good conversational powers, considerable courage, and some physical strength. He calls with the overdue account at the debtor's house, and stays there until he gets the money or becomes convinced that no money is to be had. As may be imagined, the process is a disagreeable one for both debtor and collector. Arguments, persuasion, threats, are all called into use until either the debtor or the collector becomes exhausted and gives up. While it is useful only for a certain class of accounts, it is usually very effective.

A certain Kansas City collection manager has worked out a plan by which the store's delivery men, for the time being, act as collectors. He calls it his "C. O. D." plan. A customer whose credit is perfectly good but who becomes forgetful at times allows her account to drag thirty days behind, and then, without heeding letters, comes into the store and orders more goods. The plan begins to operate when the purchase slip comes up to him for O. K.

The condition of the account is noted and instructions are given to send goods C. O. D. Next morning the driver rings the customer's door-bell and asks for, say, twenty-five dollars for the package he brings. Naturally the customer becomes indignant, insisting there must be a mistake. Her purchases are always charged. The driver, however,

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has no alternative. He must bring back the money or the goods. He suggests, however, that she call up the store by 'phone and ask the credit man for an explanation. This is exactly what he is counting on her to do. He explains that her account is considerably overdue, suggesting that probably some subordinate in the department, unappreciative of the extent of her patronage, has held up her charge, then, apologizing, he asks the customer to call the driver to the 'phone and tells him to leave the goods. The customer receives the goods, but she also receives a mental shock regarding her delinquency. Usually a check for the balance due on her account reaches the store within the week following.

**Methods of Handling.** In a typical case of a store in a town of twenty thousand population, one collector only is needed. The town is divided into four sections, one for each week of the month. The accounts for each section are divided into five parts, each part making up a day's collections. Saturday is devoted to making out statements for the following week. Each statement is made out in triplicate. Every morning the collector receives two copies of each statement assigned to him for the day. He receipts one of these and leaves it with the customer, when he receives payment for the account. The other copy is turned in at the office, with the amount collected. When no collection is made, both copies must be returned. A customer is notified in advance about the arrangements, so that he will know what day of the month the collector will call. Back calls are simply filed ahead a couple of days, and then returned to the collector for a second attempt. A good man should easily be able to make thirty calls a day unless his route is scattered. Collectors should be required to report promptly every morning at a definite time. Every man should be given his batch of accounts to follow up, and he

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should be expected to report at night, when a written report of each call on the list should be made. Every dollar collected should be turned in with these reports.

**Daily Reports.** The written report required on every call made should include the following points:

1. Did you interview debtor? If so, what did he say?
2. Is the debtor married or single?
3. Does the debtor own his own home? Does he rent a house?  
Does he live in a flat? Does he board?
4. Where does he work? What is his employer's name?
5. What household goods does he appear to own?
6. Has he a piano or any other apparent luxury?
7. Are his surroundings good or poor?
8. What do his neighbors say as to his honesty and general reputation?
9. How much salary do you think the debtor gets? What, if any, outside resources does he possess?

## XIII

### UNUSUAL COLLECTION METHODS

**Why Unusual Methods Are Necessary.** In addition to the ordinary methods used in the collection of past-due accounts, every collection man finds it necessary sooner or later to resort to extraordinary measures—methods unusual enough to be unexpected and therefore effective.

At every stage in the collection of stubborn accounts, there is an opportunity to short-cut the ordinary routine, to think ahead of the debtor, and to be ready waiting for him when he turns the next mental corner. The unusual methods require judgment, tact, imagination, and knowledge of human nature on the part of the one who uses them.

Honesty is a very common quality. Customers can generally be depended upon to meet their obligations if to do so does not involve a hardship. It is when the payment means self-denial and personal hardship that many are put to the real test.

The man with a collection problem to solve must get close to the man who owes him. Many accounts are lost to the creditor because the debtor feels sheltered, one among the many. Your collection letters come to him as one of hundreds sent to delinquents whom you follow up in the same way.

The purpose, then, of the unusual collection methods, like that of the usual ones, is to single out the delinquent and



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to let him feel that you are talking to him alone. The typical dead beat, declares one authority, is a post-graduate of the school of extravagance. At least 75 per cent. of the dead beats have been put into that class by women. The percentage of dead beats is much higher among married men than among bachelors.

A young man getting a small salary marries. Perhaps he does so on the old theory that two can live as cheaply as one. The young husband wants to see the girl he has married have as much and live as well as her old associates. So he gets into debt, but somehow he cannot apply the brakes or catch up again.

He staves off the men who trust him and becomes slow. At length he becomes accustomed to the duns and the legal processes of tradesmen. He learns then, if he is sharp enough and not too thin-skinned, he can tire them out. Most retail merchants understand all this in a vague way, but what they fail to grasp is the fact that they can by proper methods stop the development of the dead beat in most cases, and that there is a way to reach the most hardened and adroit offender if sufficient originality is brought to bear.

**Taking Notes in Settlement.** From those who really intend to pay at some future time, promissory notes may frequently be secured in settlement of a claim, when it is impossible to secure cash.

Such a note discounted or deposited with the bank for collection is more likely to be paid than if it is left in the form of a bill, or presented by the individual or concern to whom it is given. Because of the semi-public character of its position in the community, the bank can many times secure payment of the claim where the creditor cannot.

**Telephone Calls.** In the collection of accounts which may be just ordinarily slow, the use of the telephone will

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often serve to bring in past-due payments which have possibly been "overlooked." Its effect upon the debtor is as good as that resulting from a personal interview. An explanation of the delay may be asked, the importance of prompt payment may be urged, and the whole matter gone into with as much detail as the circumstances seem to warrant. Persuasion, entreaty, and even abuse may be used. Letters which could not be written without liability for libel may safely be talked over the telephone.

There is, however, one great defect in collecting by telephone. The money cannot be secured then and there. The debtor's mind may be brought up to the point of payment, the most sincere of promises may be secured, but the actual immediate money cannot. This must await the chilling effect of the debtor's second thought. If he has been brought to the paying-point the collection man may, of course, suggest sending for the money at once, but if this is not feasible or not acceptable to the debtor, he must await the remittance.

It will be well to note that a person attempting later to prove a telephone conversation with another must prove a previous conversation face to face with that person, and must be able to swear that he would know his voice and recognize it when heard. The fact that most voices do not sound the same over the telephone as in ordinary conversation is a fact that must be considered in proving telephone conversations.

**Registered Letters.** When a delinquent debtor pays no attention to letters and is not accessible to personal calls or telephone communication, the registered letter may be used to good effect. Such a letter, sent with the express direction that it shall be delivered to the addressee only, and a return receipt required, calls forceful attention to the fact that other letters have not been answered, states the

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condition of the account, and gives unmistakable evidence that the matter is up for attention.

The effectiveness of the registered letter is due to its semi-official character. Registry is formal and unusual. When the delinquent receives a registered letter in reference to his account he will in most cases conclude that his neglect of the account is becoming serious and that there must be more in it than appears on the surface. He knows that the letter was registered and that he has signed a receipt for it, but he does not know why this was done or what use is to be made of the receipt. His imagination is then likely to prove a valuable ally of the creditor. It is always a distinct point gained when a delinquent debtor can be brought into personal touch and to a formal recognition of the fact that his debt exists; and this a registered letter will in most cases bring about.

**Writing to Friends, Relatives, and Guarantors.** When the delinquent debtor fails to answer communications, although there is reason to believe that he is actually receiving the letters, the collector will often find it very effective to intimate to him that if no response is received to the letters, the concern will write to one or more of the friends, relatives, or references whose names the debtor gave at the time he opened the account.

This will often bring a reply, but if it fails to do so, it is then entirely in order to write as suggested. The letter may simply ask for the present address of the debtor, without mentioning his indebtedness, or it may explain that the delinquent is indebted to the concern, that letters written to him have received no attention, and asking for information as to his whereabouts. This action will bring a certain amount of pressure to bear upon the debtor, which may lead to payment of the account.

It may happen, also, that friends or relatives will be in-

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duced to pay the debtor's account themselves, rather than permit the matter to become public. This is especially likely to follow if the debtor has resorted to underhanded or fraudulent means of evading payment.

Sometimes the mere writing of a letter of inquiry to a delinquent's employer, which is likely to be referred to him, even when it discloses nothing of the real reason for writing except the wish to obtain the address, will bring the desired response.

**Tracing Lost Debtors.** One of the problems of every collection manager is the tracing of debtors who move about frequently and forget, purposely or otherwise, to give any notice of such intentions to move, or to leave any information concerning the new address.

Almost any method of tracing demands concealment of motive. It is foolish and futile, in seeking information regarding a "skipping debtor," to tell his friends or neighbors that you have a bill against him and that you would be obliged to them for information giving his new address.

Inquiries made of neighbors and near-by stores are more likely to give results when the report or information asked seems to come from the representative of a mercantile agency or some one of that general type. No man ever lived who has been able to leave a neighborhood without forming some acquaintanceships or connections. The object of the tracer is to find these connecting links. Those acquainted with the debtor are willing to do him either a good or a bad turn, if properly approached by one acting in the capacity of an investigator into the debtor's credit. Many men leave disgruntled and dissatisfied neighbors and acquaintances behind. Their reports are as full and as complete as the reports of those who are friendly to the debtor and who wish to give him a good character. Both usually give voluntarily the present or possible address of the man sought.

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**Tracing Through Changes of Address.** One measure of preparedness against loss from "skippers" lies in the insistence by the credit man on getting the names of one or two friends as references when the account is opened. Another important item of information that should always be sought is his "former" address. This will often help to trace the debtor back to some neighbor who may be of help in looking him up later.

Never erase an address from your records. If a man moves to a new address, simply run a line through the old one and put in the new one.

The collection manager of a Duluth (Minnesota) store makes use of a small printed slip provided for recording changes of address as follows:

<u>Date</u>		<u>Ledger</u>
<u>Name</u>		
<u>From</u>		
<u>To</u>		
<u>Card</u>	<u>Ledger</u>	<u>Taken by</u>
		<u>Memo.</u>
<u>Changed on</u>		

After this change of address is recorded in the collection card, ledger, and mailing-list, it is sent to the local credit association, where it is valued highly.

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**Tracing Through City Moving Ordinance.** In some cities local ordinances have been put into effect under which all moving firms and storage companies are obliged, under the law, to report promptly all movements of household effects by them, with full information as to the old and the new addresses to which delivery has been made.

In cities where such an ordinance is in force the collection man's troubles are considerably lessened, particularly when he is endeavoring to locate a lost debtor. The city of Duluth, Minnesota, has such an ordinance, and under it movements of debtors are recorded with something like official regularity.

**Tracing Through Post-office.** There is a postal law, sections 551 and 560, Postal Laws and Regulations of 1893, of which a certain collection man has had a rubber stamp made to use on the face of the store's request envelope. It reads like this:

Postmaster

See Sections 551 and 560, P. L. & R. 1893

Give Reasons Returned

Check one of the following reasons:

Refused

Unclaimed

Cannot be found

Present address unknown

Removed to

Under present conditions the letter-carrier or post-office will usually give very little information regarding the forwarding address of any one who has moved, because it is against the Postal Laws and Regulations. Registered letters will not bring back a receipt from the man you are looking for unless you write or stamp on the face of your envelope, "Receipt Requested," and then it does not contain any definite information as to the address where delivered.

## UNUSUAL COLLECTION METHODS

While the postmaster cannot legally give the change of address of any one, yet, if you will send your city mailing-lists to him for correction of addresses, he can correct your whole list at a charge of about 40 cents an hour for clerical time, and do it legally. In this way you can often locate people who would otherwise escape you.

**Tracing Through Express Company.** There are other methods of tracing by which a concern makes use of stationery bearing the caption of an "express company" with a return card to the company's own place of business in the corner of the envelope. The letter mentions an undelivered express package directed to the skipper, and incloses a postal with the request that proper shipping address be sent so that the "express company" may forward the package.

**Tracing Through "Trustee" Letters.** Another plan, known as the "trustee letter," makes use of the local credit association or some other suitable address which may appear on the envelope. When a debtor is to be located the name of the party sought is inserted under "Subject" at the top of the letter-head, and the letter mailed in a plain envelope with "Return to Lock Box —, Duluth, Minnesota," or whatever address is chosen, in the upper left-hand corner, to as many friends and relatives of the debtor as there are addresses available. With each letter a stamped envelope is inclosed, addressed in the same way. If the letter is returned undelivered, or if it comes back with the address wanted, the credit association at the same time corrects its records.

In practice it quite often happens that people who receive these letters forward them to the parties sought, and they in turn fill out the blanks themselves and return them.

**Tracing Through "Credit World."** An excellent means of country-wide tracing of lost credit is made possible through

## RETAIL CREDITS AND COLLECTIONS

the pages of the monthly publication of the Retail Credit Men's National Association, known as the *Credit World*. This publication has for one of its chief objects the publication of lists of lost debtors who are wanted for any reason at all in any part of the country.

It may very easily happen that creditors in one section of the United States may thus be officially warned against habitual debtors who have moved from other parts, and it serves those who are on the trail of debtors who have disappeared, as another method of finding them through the clearing-house offered by this publication. Its pages are free to any one who will send in a list of names of debtors sought.

**Other Tracing Systems.** There are privately owned concerns who advertise to secure the addresses of lost debtors in any part of the country for a fee of one dollar. A registration fee of ten cents is required with the understanding that the new address, if it is secured, will be submitted in the debtor's own handwriting for the client's verification, and if found to be correct the balance of the fee, ninety cents, will be due.

Other plans of this sort are usually variations on the "express company" plan, offering a full-paid subscription to a magazine or to deliver a package, as the case may be. A certain amount of success has been secured by such concerns.

**Black Lists.** In collection work threats of action to follow non-attention to bills and letters must be used with much caution, or they may involve the user in most unpleasant entanglements. A credit threat where a collector explains that as a member of some credit association he is required to report all bad debts, is well within his rights. He may explain the embarrassment felt because of his wish to protect the debtor. Because the account has run a



# ACCOUNTS FOR SALE

## THE CREDITORS' ASSOCIATION

As Agents, offer the following judgments, notes and accounts for sale to the highest bidder, reserving the right to reject any or all bids.

[illegible]

The Creditors' Association will receive written bids for the above accounts. These accounts are guaranteed (by creditors) undisputed, correct and just.

## THE CREDITORS' ASSOCIATION

## GENERAL SOUTHERN OFFICES

**521 Carondelet Street**  
LONG DISTANCE TELEPHONE MAIN

LONG DISTANCE TELEPHONE MAIN 6491

NEW ORLEANS, LA:

## RETAIL CREDITS AND COLLECTIONS

long time, the debtor will realize that such a listing of his name among slow-pay customers is not unreasonable. Under such circumstances, the debtor, when asked to come to the mutual relief of himself and his creditor, will frequently respond, because the debtor naturally does not wish to have his name included in the list, since he does not know how widely his delinquency may be published if he refuses to settle.

Any resort to threats or expedients like this must naturally be used with caution, because in some states the laws governing the collection of bad debts are so strict that such threats may render the creditor liable to a penalty.

**Offering Debtors' Delinquent Accounts for Sale.** Retail collection managers for stores in New Orleans, Louisiana, have developed a plan which is most effective in the rounding up of accounts by listing the names, addresses, and amounts due on the accounts of all delinquents in the community and, after sending out two fairly stiff letters to these delinquents, writing a third letter with the actual threat to offer the account for sale; then, finally, a letter to a selected list of people in the city offering to sell the account, making sure that the list of those who receive this letter and the list includes several neighbors of each delinquent.

It is said that this plan works very effectively and that it has been declared legal in the state of Louisiana. A list such as that described is reproduced on page 195.

## XIV

### FORCING COLLECTION OF DIFFICULT ACCOUNTS

**When Should Pressure Be Applied?** When a debtor, in spite of all the effort expended upon him, pays no attention to bills or statements or letters, fails to keep his promise or to explain his delinquency or to pay, the collection man must decide how strong a pressure he can afford to exert.

He realizes that accounts followed to the last extreme of unpleasantness, even if collected, pull down the average of charge-account profits. He knows, too, that a point is reached somewhere in the follow-up where the cost of collecting overshadows the returns he can secure.

There are considerations, however, other than the actual recovery of money due, which must be kept in mind by the man who directs the store's collection policy. One is to determine whether all possible means have been taken to adjust the account peacefully, because he realizes that a resort to legal measures is expensive, always troublesome, and invariably means the loss of at least one customer and sometimes more.

Under ordinary circumstances the collection man will prefer to retain control of the account, resisting the temptation to call upon his attorney or the local collection agency until all possible efforts have been made to get from the debtor

## RETAIL CREDITS AND COLLECTIONS

the real cause of his delinquency and some definite idea of what he intends to do about his account.

If the debtor can be made to explain his circumstances some workable adjustment of the matter is nearly always possible. But where this information, despite repeated efforts to get it, is withheld, the collection man has no choice. He must proceed to unpleasant measures to guard the interests of his house.

When this stage is reached the debtor will naturally be told that the claim against him is about to be placed in the hands of the attorney or the collection bureau of the local credit men's association, for collection. If he wants to prevent the taking of this step he must remit or explain his delinquency before a certain date, which is fixed, just far enough ahead to permit his answer to reach the store's collection man.

Then if the debtor fails to respond there is nothing left to do but make good the threat of further action, and there should be no further direct dealing with him. From this time on—at least so far as the debtor knows—the local attorney, or the collection bureau in whose hands the matter has been placed, should be considered to be in full charge of the account.

**Investigation Before Resorting to Force.** Before actually relinquishing his direct control of the account to the attorney, however, the forehanded collection man will usually undertake a final reinvestigation of the debtor, with a view to verifying as completely as possible all the facts concerning him—his present location, his financial standing, his neighborhood reputation, and all the other details that are needed by the attorney in bringing pressure to bear.

The credit-office files, if they have been well kept, will in such cases supply the facts without a great deal of verification needed.

## FORCING COLLECTION OF DIFFICULT ACCOUNTS

**The House Agency.** Collection managers whose contact with their debtors is chiefly through the mails quite commonly supplement their own collection efforts through letters written on regular store stationery, with a brief new series of letters on the special letter-head of a collection agency or on the stationery of the local credit men's association, which is apparently independent of the concern to which the account is owed, but which is really a part of it.

The advantage of using a "house agency" of this kind is that this new series of letters on an unfamiliar letter-head will often bring a response from the long-silent delinquent, and thus pave the way to a readjustment of the account. This means an actual saving in fees that would otherwise be paid to the agency or attorney, and at the same time retains control of the account for continued prompt and tactful handling by the collection man, who is in a better position to salvage the debtor's good-will than an outsider would be.

The series of letters to be written on the house-agency stationery should be carefully planned to suit the needs of particular cases. Usually three letters, the last one a final notice before threatening legal action, will suffice.

**Selecting an Attorney.** While the collection of accounts through legal proceedings is not to be employed until it is clearly apparent that the money cannot be secured in any other way, the fact that suit can be brought is one of the most effective collection measures at the command of the collection manager. The ordinary debtor has but slight knowledge of the law. He knows it is likely to be costly and troublesome for him.

Because there is a certain mystery as to its workings, and because he knows that the debt is justly due, the actual threat of action by an attorney is likely to be effective in

## RETAIL CREDITS AND COLLECTIONS

forcing him to pay. So great is his dread of it that many times the mere suggestion of a lawsuit, properly conveyed, is enough to bring about a settlement. When legal action is necessary to collect an account an attorney must be employed. But in a great many cases, because of this wholesome dread in the minds of the delinquents of the law's power, the attorney may be employed to advantage before suit is even contemplated. A mere letter from an attorney to the debtor, stating that the account has been placed in his hands for collection, and suggesting that it will be advantageous for the debtor to call and settle, will often be sufficient to bring him to the attorney's office, and, once there, some settlement without recourse to the courts should be possible.

In most localities there are attorneys who specialize on collection of commercial accounts and who for that reason are well equipped to give vigorous attention to accounts placed in their hands. Young attorneys, men just graduated from the law-schools, whose legal practices are still to be developed, are often found to get better results in handling collections than older men of greater experience. The younger men need the money and the practice, and have a name to make for themselves. For this reason they will often follow collections more closely than is usual with older law firms, which may prefer to devote themselves to other lines of legal work.

Whoever the attorney may be, he should be one who is personally known to the collection man to be honest and to possess ability, and he should be assured a fee adequate for his services.

It seems hardly necessary to suggest that a careless or unscrupulous attorney is not one to whom accounts may be safely trusted for collection. Such men make but little effort to win the case when it is brought before a justice or in a

## FORCING COLLECTION OF DIFFICULT ACCOUNTS

lower court, preferring that it should be lost there for the sake of prolonged litigation and larger fees to come from an appeal to a higher court. Naturally the attorney chosen should not be a relative or friend of the debtor.

**Using Attorneys in Other Cities.** If the claims are against the debtors in other localities, the problem of selecting the attorney to properly handle them is more complicated. The creditor usually consults one of the numerous law lists or directories of bonded attorneys published by various agencies and bonding organizations, of which there are many in this country. He then forwards the claim under the guarantee of the law-list publisher, who practically guarantees the prompt payment of all money collected by the attorney in his list, provided he is informed by the forwarder of the claim, when and to whom the claim is being sent.

As a medium between the creditor, on the one hand, and the attorney in the debtor's home town, on the other hand, the modern collection agency has come to fill a useful place. Many houses who have a number of such cases to handle find it desirable to "forward" them through one central collection agency of known standing, in preference to sending them to local attorneys in other sections of the country direct. The cost to the creditor is the same in either case, for it is usual for the attorney to divide his fee with the forwarding agency, in the proportion of two-thirds to himself and one-third to the agency through which the claim reached him.

**Following Up Out-of-town Attorneys.** In most cases there is a distinct advantage to the creditor in the use of the forwarder, who is himself equipped to take over the entire responsibility of following up the attorneys to whom he has forwarded claims. This advantage will be more apparent when it is understood that at times it is necessary to

## RETAIL CREDITS AND COLLECTIONS

forward a single claim to as many as a dozen different attorneys in a given district before one is found who can and does show results.

If the creditor is relieved from the work of following up attorneys to whom his claims have been forwarded—in itself a job that equals the work of following as many delinquents—he will find the services of a good forwarder well worth while.

**The Service of the Forwarder.** Probably the one advantage to the ordinary creditor of using a forwarder's service, over referring claims to attorneys direct, lies in the fact that the forwarders can get better service and attention to the claims. This is true because no attorney feels that he can as readily afford to refuse claims or offend the forwarder, who may have a large number of claims of all kinds to send him later. On the other hand, the trial attorney who receives a claim from the creditor direct has no special compunction about refusing to handle it if he feels so disposed. Following is a form issued by the forwarder to his correspondent attorney which combines an acknowledgment of the claim.

DEAR SIR:

We inclose for collection and remittance, to our order, on terms stated below, the following claim. We hereby stipulate that the terms shown in this letter shall govern your charges. Your agreement to such terms is a condition precedent to any performance on your part, and shall be evidenced by your retention of this claim.

### TERMS:

10	% on first.....	\$100
7	% on excess up to.....	\$500
5	% on excess up to.....	\$1,000
2½	% on excess over.....	\$1,000

Minimum fee, \$2.00



FORCING COLLECTION OF DIFFICULT ACCOUNTS

IF THESE TERMS ARE NOT SATISFACTORY, RETURN CLAIM AT ONCE.

One-third of all fees must be included in accounting to us for the proceeds of this collection.

Claims must be presented at once and receipt acknowledged with such information as you can give.

IF CLAIM IS SETTLED BEFORE BEING PRESENTED AND ACKNOWLEDGED BY YOU, NO COMMISSIONS WILL BE PAID.

Important:

If debtor is solvent and will neither pay nor secure claim, advise at once as to amount of costs of suit. Incur No Costs without instructions.

If debtor is insolvent, obtain best compromise proposition and submit to us. If worthless, return claim at once with a report.

NO FEES WILL BE ALLOWED ON CLAIMS NOT COLLECTED, AND NO FEES OR COMPENSATION OTHER THAN ABOVE, UNLESS THERE IS A WRITTEN AGREEMENT FOR SUCH EXTRA FEES OR COMPENSATION.

NO FEE DUE FROM US ON ANY ITEM OF BUSINESS OTHER THAN ABOVE SHALL BE DEDUCTED FROM REMITTANCE ON THIS CLAIM.

Failure to acknowledge receipt, to answer letters, or to follow special instructions will constitute a breach of these conditions, and a forfeiture of all fees, and give us the right to forward a duplicate of this claim to other correspondents without notice.

Interest must be collected on all accounts. Use telegraph if necessary. A form of acknowledgment or receipt of the claim follows.

.....Forwarder.

We hereby acknowledge receipt of claim

.....  
.....

consisting of Draft \$..... Account \$.....  
Note \$..... the proceeds of which we agree to remit,  
less two-thirds of the fees. Said fees shall be computed on the terms  
stated below, unless there is a written agreement otherwise. If  
claim is paid before we present it, no commission is to be charged  
by us.

## RETAIL CREDITS AND COLLECTIONS

### TERMS:

10	% on first.....	\$100
7	% on excess up to.....	\$500
5	% on excess up to.....	\$1,000
2½	% on excess over.....	\$1,000

Minimum fee, \$2.

Actual disbursements will be paid when claim is reduced to judgment. Commission will be paid only when collection is made.

### REPORT:

(Give full particulars as to debtors' responsibility, and measures necessary to be taken to make collection.)

Yours,

*Attorney.*

**Fees.** When an attorney is to be employed it is always well to have a distinct understanding as to his charges for services. If the attorney is selected from one of the law lists, the fees are usually fixed and understood. In many cases local bar associations fix the rates of member attorneys. From 10 to 15 per cent. is the usual charge in small accounts collected without suit, this fee decreasing as the amount involved increases. On small accounts there is usually a minimum fee below which the attorney will not go, as, for example, two or three dollars. Where suit is necessary, attorneys frequently charge 50 per cent. of the amount collected. In such cases the attorney usually advances the court costs.

**The Question of Costs and Disbursements.** Where the creditor advances the court costs the amount varies ordinarily from five to ten or twelve dollars. The amount required, however, is bound to vary, depending on the state in which the action is brought and the amount of the claim. In the state of Pennsylvania, for example, there are four different courts in which actions may be started, depending on the amount involved. Each calls for a different scale of

## FORCING COLLECTION OF DIFFICULT ACCOUNTS

costs. In New York state the costs advanced are usually \$7.50, which cover cost of serving summons, calendar fee, sheriff's fee, and the like.

Here are the items of costs for suit in the state of Utah.

Service of summons.....	\$1 20
Filing of complaint.....	2 00
Trial fee.....	2 00
Execution.....	25
Service of execution.....	1 20
Garnishee fee.....	2 00
<hr/>	
Total.....	\$8 65

**Attorneys' Services, Constructive and Destructive.** The results shown from collection efforts depend in no small degree upon making proper use of the attorneys to whom claims are intrusted. The commercial attorney endeavors to keep in close touch with business conditions in his town or vicinity, especially with matters touching the financial condition and reputation of local residents. For that reason his opinion with regard to the standing of a debtor is often worth considering when it comes to the selection of the proper collection procedure to take.

**Taking Collection Advice from the Attorney.** The far-sighted creditor is the one who makes use of the local attorney's knowledge and advice in regard to a local claim, with the idea that the prospect of actually bringing him into court is usually a more effective means of securing an adjustment or a settlement of the claim than the actual execution of the threat. He makes capital of this fact, and the creditor will require a full report of the debtor's financial condition and present circumstances, with an opinion as to the prospect of an early collection. He may know that, owing to the debtor's condition, there is little likelihood that

## RETAIL CREDITS AND COLLECTIONS

the claim will be paid in the immediate future and that the bringing of suit would be of no avail, but that there is good hope of collecting the money in small instalments spread out over a number of months.

In the absence of such a preliminary report, the attorney's advice that the suit be brought at once will not be acceptable to the wise creditor who realizes that such action is often expensive and almost certainly involves the permanent loss of the debtor's trade.

One collection man, who has the handling of thousands of small mail-order accounts against individuals in various parts of the country, has made it a rule never to authorize suit until a full report shows that such action is absolutely necessary. He has been able, on the other hand, to bring about the adjustment of as many as seventy out of one hundred claims, securing in many of them payment in full, without actually bringing action or advancing a cent for costs. In a large percentage of the cases so adjusted he has been able by careful instructions to his attorneys, and close supervision of their work, to retain the good-will of his debtors.

Contrasted with the opposite policy of bringing action indiscriminately and without any effort to "resell" his customers on their need for fulfilling their obligations, he has salvaged for his house many times over the amount of his salary each year. His method of handling collections thus "constructively" through attorneys is much to be preferred to the ordinary "destructive" method.

**Co-operating With the Attorney.** When an account is placed in the hands of an attorney he should be given a full and accurate statement of the facts in the case. At the same time any instructions necessary should be given him so clearly and specifically that there will be no possibility of a mistake. If suit is to be delayed or not to be

## FORCING COLLECTION OF DIFFICULT ACCOUNTS

brought at all, or if a compromise will be accepted, or if there is any other information that may help the attorney in his dealing with the debtor, all should be plainly stated. After that, any new information bearing on the account which comes to the collection man should at once be sent to the attorney, so that he may have all the facts to work with.

Even in cases where the debtor, on receiving a letter from the attorney regarding the account, hurries to make his payment direct to the store, thinking thus to forestall further action, the acceptance of such a payment should await the attorney's approval, because in some cases the recovery of sums advanced to cover costs, and which are justly charged to the debtor, cannot be recovered if such a payment is accepted on account direct.

The collection man may feel tempted, in the cases where payments are offered direct in this way by the threatened debtor, to accept them and to hold back or pay reluctantly the stipulated commission to the attorney.

Inasmuch as the payment was secured, however, as a direct result of the attorney's effort, he must in all fairness be protected in the payment of his commission as scrupulously in such cases as if the attorney had actually received the money and turned it over to the store.

It should be remembered that the relationship between the attorney and the collection department is one of confidence, and if it is to be effective, then there must be perfect co-operation and fair dealing on both sides.

## XV

### LEGAL AIDS TO COLLECTION

**Knowing Collection Law.** Assuming that it appears necessary to resort to legal process to force the payment of a just debt, after the collector has tried every possible means to friendly adjustment, he will first ask himself, "If I do get a judgment, can I collect it?" Then he will remember that to get his judgment and to collect it he will need "a good cause, a good purse, a good counsel, a good judge, a good jury, and good luck."

When a delinquent has property in his own name subject to execution, that is of a nature not exempted by law, and in amount over and above that fixed by statute under which a man's earnings or property cannot be touched, the collection of an undisputed account by suit is a simple matter. Even when the debtor has no property, or where property is exempt, it is frequently advisable to bring suit. In such cases the debtor will sometimes pay his debt to avoid having a judgment entered against him. In other cases he may be ignorant of the law and afraid of it, and if he finds out that suit has been brought against him will make some settlement.

Sometimes, having begun an action, it is well to have it continued from time to time until actual payment is made, thus insuring against the losses from false promises of settlement made by an unscrupulous debtor to avoid action. A

## LEGAL AIDS TO COLLECTION

discontinuance of the action may be effected by the plaintiff or creditor at any time if he does not think it worth carrying further. His loss in such an event will be only the actual cost of the proceedings so far.

It is well to bring all actions in the same district before the same court, if possible, with the same justice sitting, to insure more friendly treatment and smaller court costs than might otherwise be exacted.

**Turning Accounts into Judgments.** Every state in the Union has fixed a "statute of limitations," defining the limit of time beyond which a debt cannot be collected by legal action. A debt is said to be "outlawed" when it is allowed to stand for a time beyond the limit set, and unless legal action is brought within the period, or unless the account is kept alive by a payment or some other acknowledgment by the debtor.

The limits defined vary for different states and with the nature of the debt. An open account expires by limitation in from two to eight years. For notes, the period is usually longer. As a rule, the statute applies from the date of the last payment, if the full amount of the claim is due at that time. If, therefore, payments, even small ones, can be secured from time to time, there is no danger of a claim expiring by limitation. If, however, no payments or written recognition of the debt can be secured, suit should be brought before the time of expiration. When suit is brought and judgment obtained, this judgment has a life of its own, also fixed by statute and varying in the different states, and the claim is secure for this period.

**Exemptions.** Just as the different states have fixed various limitations on the length of time within which a creditor may collect his debt, so the laws of the states have fixed upon the amount and the kind of property a debtor may retain regardless of what he may owe.

## RETAIL CREDITS AND COLLECTIONS

In California, for example, a homestead of \$5,000 value above mortgage, if filed by a married man or wife, is exempt. If filed by single person, a homestead of \$1,000 value above mortgage is exempt. Household furnishings of the home, including sewing-machine, piano, and the like, may not be levied upon, as are all tools and machinery necessary to carry on the trade of an artisan. Farming implements not exceeding \$1,000 in value, two mules and harnesses, wagon, coupé, three cows, four pigs, one shot-gun, one rifle, and seventy-five dollars' worth of poultry; all earnings of a married man for services rendered within thirty days are exempt, except for purchases of necessities of life, when one-half these earnings may be levied upon. None of the articles mentioned, however, is exempt from levy in an action brought for their purchase price.

The following is a list of the homestead and other exemptions under personality and wages:

STATE	PERSONALITY	WAGES
Alabama.....	\$1,000	\$25 per month
Arizona.....	\$500	Earnings 30 days preceding levy
Arkansas.....	\$500 in certain articles	For 60 days, but not in addition to personality
California.....	Specified articles, not exceeding \$1,000	Earnings, 30 days preceding levy
Colorado.....	Specified articles	Earnings for preceding 30 days, not over \$30
Connecticut.....	Specified articles	\$25 in wages due
Delaware.....	Each county has a special law	
District of Columbia	Specified articles to amount not exceeding \$1,000	Two months' wages, not exceeding \$100 per month
Florida.....	\$1,000	All wages due
Georgia.....	Specified articles	All wages due for labor
Idaho.....	Specified articles to value of \$1,000	Wages for 30 days
Illinois.....	\$400	\$15 per week
Indiana.....		One month's wages



# LEGAL AIDS TO COLLECTION

STATE	PERSONALITY	WAGES
Indian Territory...	\$500, and wages under \$500	Wages for 60 days, not over \$500 when added to personality
Iowa.....	Specified articles, and also household goods not exceeding \$200 in value	Wages for 90 days
Kansas.....	Specified articles	Three months' wages
Kentucky.....	Specified articles	Wages to \$50
Louisiana.....	Specified articles	All wages
Maine.....	Specified articles	One month's wages, not exceeding \$20
Maryland.....	Specified articles to value of \$100	Wages to amount of \$100
Massachusetts....	Specified articles	As against debt for necessities, \$10; other debts, \$20
Michigan.....	\$250 in goods for each partner. Specified articles	To amount to \$25
Minnesota.....	Specified articles	\$25, if earned in 30 days preceding levy
Mississippi.....	In country, specified articles; in town, \$250 in value	Head of family, \$100; other persons, \$20
Missouri.....	\$300, besides wearing apparel, household and kitchen furniture	
Montana.....	Specified articles	Thirty days' wages
Nebraska.....	Family supplies for six months and certain enumerated articles	Sixty days' wages
Nevada.....	Specified articles	Back wages not exceeding \$50
New Hampshire...	Specified articles	\$20, except for necessities
New Jersey.....	\$200 in merchandise and wearing apparel	All wages
New Mexico.....	Specified articles	All wages
New York.....	Specified articles and \$250 additional	Sixty days' wages
North Carolina....	\$500 in personality	Sixty days' wages
North Dakota.....	Not to exceed \$1,000; also \$40 to each member of the family exempt, and \$70 for horse feed	
Ohio.....	Specified articles	Three months' wages where debt is for necessities; 10 per cent. of personal earnings not exempt

# RETAIL CREDITS AND COLLECTIONS

STATE	PERSONALITY	WAGES
Oklahoma.....	Specified articles	Ninety days' wages
Oregon.....	Specified articles	Thirty days' wages
Pennsylvania.....	Specified articles	All, except as against judgment for wages
Rhode Island.....	Specified articles to value of \$300	
South Carolina.....	To value \$500	Sixty days' wages
South Dakota.....	\$750 on debts contracted since July 1, 1890; \$300 to single persons; otherwise, \$1,500 to all persons	Sixty days' wages, if necessary to support of the family
Tennessee.....	Specified articles	\$30
Texas.....	Specified articles	All wages
Utah.....	No specified amount exempt	\$30 a month for married man
Vermont.....	Specified articles	Two months' wages, not exceeding \$50 per month
Virginia.....	Real or personal property, or both, to \$2,000, besides specified articles	Not exceeding \$50 per month
Washington.....	Specified articles	Wages to amount of \$100
West Virginia.....	To value of \$200	
Wisconsin.....	Specified articles, and also household goods, not exceeding \$200 in value; also specified agricultural implements not exceeding \$200	Wages for 3 months, not exceeding \$60 per month
Wyoming.....	Specified articles to value of \$800	Wages not exceeding \$100 in value

**Garnishee.** Garnisheeing is the legal process by which the creditor may divert the payment of a debtor's salary or wage, in whole or in part, from the debtor to apply on the liquidating of the debt.

A part of the employee's salary, however, is usually exempt, the amount varying under the laws of different states. As may be surmised, the garnisheeing proceeding is a very effective means of forcing a debtor to pay. No small part of its effectiveness lies in the fact that

## LEGAL AIDS TO COLLECTION

it is collectable by order of the court from the debtor's employer.

United States government employees are exempt from garnishee. This fact, taken into account since the federalizing of railroads in the country under government control, has brought much uncertainty into the situation affecting collection of accounts from railway employees. While Director-General McAdoo has ruled that all railway employees are exempt, there is a strong sentiment among business men of the country that the matter must be decided in court to be final. They contend that if railroad employees are exempted from garnishee, then telephone, telegraph, and ship-yard workers will be entitled to the same consideration.

**Supplementary Proceedings.** In cases where an action is brought and the creditor has been given judgment against a debtor, the job of actually executing the court's order to seize property and sell it for payment falls to the court officer or sheriff. Where such an "execution" is returned unsatisfied, because no property subject to levy can be located, it is still possible for the creditor, by procuring an order from the district court, to force the appearance of the debtor before the judge or referee to answer under oath questions put to him by the creditor's attorney regarding his ownership of property. Disobedience of orders made in these proceedings may be punished as contempt of court. The debtor must answer questions put to him.

**Attachments.** Another means for preventing a debtor from removing his property from the state or disposing of it after suit has been instituted for recovery of a debt is the "attachment."

The "writ of attachment" enables a creditor to have the property of a debtor seized and held for the payment of a debt on which suit has been or is about to be brought. The

## RETAIL CREDITS AND COLLECTIONS

advantage of issuing an attachment is apparent to the creditor who has had the experience of suing a debtor who apparently had assets at the time the suit was begun, but whose assets had disappeared and could not be traced after the judgment was obtained.

**Replevin.** With goods sold on the deferred-payment plan, like victrolas, pianos, sewing-machines, or the like, the seller usually retains title to the property until full payment is received. In cases where, because of failure to keep up payments, it becomes necessary for the creditor to repossess the property, the means for doing so is by a replevin suit. This suit is for immediate recovery and the seller is allowed, by giving a bond, to take the goods at once and hold them until the case comes up for trial. Many debtors, when goods are thus taken, do not make any further effort to retain or regain them, thus leaving the creditor in full possession. If the case comes to trial, the seller can show then that the terms of the contract were violated by the debtor's failure to pay as agreed, and in most states this will defeat the debtor.

**Extensions—When to Grant Them.** Sometimes a debtor finds himself pressed for immediate funds because of circumstances beyond his control. When his condition is made known, with the evident intention of doing his best to overcome the condition, it is part of the collector's job to arrange for the best means of carrying the burden and at the same time to save the account for the house. The collection man by his method of handling the situation will invite the frankest kind of explanation by the debtor of his predicament, so that he may first of all decide whether an extension is needed, and, if so, to arrange one the terms of which will be definitely understood.

From purely selfish motives, the collection man should give serious consideration to such a request for time, be-

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cause it will be, in many instances, the only means of preventing trouble and loss to both debtor and creditor.

Among the questions for the collector to answer when a customer seeks an extension are:

1. Is he honest? Here his character is all-important. If he is not to be trusted to keep his agreement, then an extension would simply give him an additional opportunity to inflict a loss.

2. Has the debtor strength to continue in his present surroundings and eventually work his way out of his difficulties?

Will the assistance given him enable him to make good? Here the capacity of the debtor is the determining factor.

When a debtor asks an extension, he exposes and impairs his credit in all markets. This means that those creditors who grant the extension are obligated in a measure to continue selling him.

3. What are the reasons for the debtor's embarrassment, and the prospects of improvement of his condition?

**Legal Aspects.** Many times the extension is accomplished by the debtor's giving the creditor a note. In such cases the giving and accepting of a note in place of the old account is in effect the substitution of a new contract for an old one, and is therefore binding on both. When the debtor gives security or obtains a guarantor in consideration for extension of time granted, the agreement is supported by sufficient consideration and is therefore binding.

When the question arises, then, in the minds of either creditor or debtor, whether an agreement for an extension of time is binding on the creditor, it must be remembered that every contract, to be valid, must be supported by some consideration. Obviously, an agreement by one creditor to

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give a debtor an extension of time without consideration is not binding on the creditor. Where, however, several creditors agree among themselves and with the debtor, that, in consideration of each creditor's forbearance, each of the other creditors will agree to an extension, there is sufficient consideration to support the promise of each creditor; and no one creditor, at least without the consent of all others, would have the right to demand payment before the extended time had elapsed.

Under certain conditions it would be unwise for creditors to grant an extension. This is obviously true, for example, where a debtor's condition shows no real likelihood that he will be able to get back on his feet again. Under such conditions an extension would hardly be advisable. The debtor's condition would not be helped or improved by it. More heroic measures are necessary.

**The Composition Settlement.** One remedy for such a condition is the common law or composition settlement. This is an agreement between the debtor and several of his creditors, not necessarily all of them, by which each agrees to release the debtor from the entire debt on receiving a partial payment from the debtor.

The composition settlement is usually brought about on the initiative of the debtor, who submits an offer to his creditors, offering to pay a certain percentage of their claims. The proposal may be made directly by the debtor, or through his attorney, to the creditors individually or at a meeting of creditors called for the purpose.

When creditors are numerous, it is difficult, usually, to arrange such a settlement—because there are likely to be one or more among them who insist upon full payment. When creditors are few, however, and inclined to be friendly toward the debtor, not many obstacles will be met in bringing about an equitable settlement.

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**Who May Become Bankrupt.** The theory on which bankruptcy laws rest is that so long as a man is solvent he is doing business or living on his own money, and may do with it as he pleases, but the moment he becomes insolvent he ceases to be doing business on his own money—he has spent his own—and is beginning to trade on his creditors' money.

It is the object of the Federal bankruptcy laws to protect an insolvent debtor's estate from seizure by any one or more creditors to the exclusion of others, and to prevent the insolvent debtor in the distribution of his assets or payments of his debts from giving one creditor preference over another.

**Voluntary and Involuntary Bankruptcy.** This is open to all individuals, firms, and with some exceptions to corporations. No special amount of indebtedness is required. A person owning one dollar or several millions may file a petition in voluntary bankruptcy. Any insolvent person, except "wage-earners" whose compensation is less than \$1,500 a year, or "farmers," or "tillers of the soil" owning \$1,000 or more, and committing an act of bankruptcy, may be put into involuntary bankruptcy. Before a court can adjudicate an insolvent debtor bankrupt without his own consent, and take charge of his property for the protection of all creditors, the debtor must have committed one of the following five acts:

1. Removed or concealed or conveyed a part of his property with intent to defraud his creditors.
2. Transferred a part of his property to one or more of his creditors with the intention of showing preference over other creditors.
3. Permitted a creditor to obtain a preference through legal proceeding and disposition of property affected.
4. Made a general assignment for the benefit of his creditors.

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5. Admitted in writing his inability to pay his debts and his willingness to be adjudged a bankrupt on that ground.

Sometimes, in order to create one of these acts of bankruptcy, one creditor, with the approval of others who are anxious to have the debtor judged a bankrupt, will bring suit for a claim, obtain judgment, and levy execution against the debtor's property. Thus a third act of bankruptcy will be committed and the creditors may file their petition.

**Proof and Allowance of Claims.** Before a creditor may take part in the election of a trustee, or in the distribution of the assets of a bankrupt estate, he must file a proof of claim, and the claim must be allowed by the referee or court.

A claim is proved by filing a claim under oath, in writing, by a creditor setting forth the claim, the consideration, and what payments, if any, have been made, and that the sum claimed is justly owing from the bankrupt to the creditor.

**The Credit-granter and the Bankruptcy Laws.** While the Federal act is open to improvement, and almost no convention of credit men is complete without a statement of the changes needed in it, it has exerted an immeasurable good influence on business. A return to the old chaotic conditions which existed under various unrelated state acts before the Federal act was passed, would be an unmixed evil.

Only through the retention of the Federal act can the present highly developed system of free interchange of credit information and the resulting confidence among credit men continue. The procedure may from time to time be simplified so as to reduce the expense of bankruptcy administration and to expedite it. This may best be done, however, by suitable amendments to the act rather than by its repeal.



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**Changes in the Law Sought by Retailers.** Retailers of the country, through the Retail Credit Men's National Association, have been working for certain changes in the present Federal Bankruptcy Act which they believe would assure them better protection than is now possible against debtors who are dishonestly inclined.

They are working naturally toward the elimination of the crook, or at least to make it more difficult for him to hide behind the present law and to get his discharge from bankruptcy later.

The national act as it stands now is, they feel, entirely in favor of the debtor, not the creditor. It is an invitation to the dishonestly inclined to cheat his creditors. They believe that protection under the law should be available only to persons engaged in business, and should permit discharge from business obligations only as distinct and apart from personal obligations.

They maintain that a customer should not be permitted to acquire expensive habits and satisfy them at the expense of creditors. Such things as liability for clothes, rent of house or apartment, and other necessary and reasonable living expenses, should not be dischargeable when the debtor goes into bankruptcy.

**Legal Action Through Credit Bureaus.** In communities where the retail credit men have organized local bureaus, it is not unusual for them to provide a common medium through which the disagreeable work of initiating legal action for debts owing to members in the bureau's collection department may be undertaken. In such cases, the action which might not be brought by an individual merchant, because of his wish to avoid the unpleasantness, may be undertaken independently and impersonally for him and for others of the local association's members, thus avoiding much of the unfavorable publicity which might otherwise

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result. The bureau's secretary, who is usually intrusted with legal collection work, has the opportunity of combining the claims of all bureau members against the debtor, thus enabling him to bring the action for an amount large enough to qualify it for trial in a higher court, if necessary, than would be possible if an individual merchant were to undertake the task alone in a comparatively similar manner.

## XVI

### THE CREDIT MAN AND THE BANK

**Where the Credit Man Meets the Banker.** While the store's financial policy may not be administered by the same man who is responsible for its credit policy, these two functions of the store's management are closely interrelated. The credit man is opening accounts which will mean money payable to the store. As collection man he deals with money due to the store for goods already bought by the store and—possibly paid for. The man who draws checks on the store's account at the bank to pay its bills, or who arranges to borrow from the bank in order that he may do so, is counting on the fulfilment of promises made to the credit man. There is, therefore, really a place in this discussion of the retail credit man's work for a brief outline of his relationship with the banker.

**The Retailer and the Trade Acceptance.** Considerable attention was given to the subject of "trade acceptances" for use between retailer and consumer in the sessions of the Convention of Retail Credit Men in Boston during August, 1918. The discussion of the advantages and disadvantages of a general use of the acceptance brought out many interesting points for the consideration of all retailers which may properly be mentioned here. Just at this time, when business is thrown out of its normal stride by the world war more than ever before, the economic well-being of the

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community and the country at large depends upon the soundness with which retail credits are extended by merchants to their customers over the country. In periods of great prosperity local credits have a way of becoming overextended both in amount and in length of time. This condition is due to the fact that the consuming public is busy working at good wages, and merchants temporarily lose sight of the fact that such periods are followed sooner or later by business depressions during which their customers find themselves with their incomes reduced or temporarily cut off, and with their outstanding credit obligations at the maximum. During such times the inability of the consuming public to pay their old accounts brings on failures and depressions.

Merchants are now taking action to prevent overextension of retail credit when the next slowing down in business takes place. They are seeing to it that slow accounts are collected promptly and terms of credit shortened.

**The Acceptance Defined.** The trade acceptance is defined by the Federal Reserve Board as a draft or bill of exchange, drawn by the dealer on the purchaser. Trade acceptances should have nothing to do with nor be employed in any class of transaction except that concerning the purchase and sale of goods, and should represent only current transactions.

It should be observed that the trade acceptance is not a sight draft or a promissory note, for, as one authority has explained, a note is drawn by a person whereas a trade acceptance is drawn on a person. A note is generally used in borrowing money and in the settlement of past-due obligations, while a trade acceptance bears on its face evidence that it is drawn by the seller of merchandise on the purchaser for the purchase price of goods sold and when accepted constitutes a valid promise to pay on a specified

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date. As a negotiable instrument it is as binding upon the acceptor as his promissory note, but performs a different function.

**Change from Open Book-accounts to Acceptance.** The change from open book-accounts to the trade acceptance is very simple. When a merchant makes out the regular monthly bills sent to charge customers, he attaches a trade acceptance to each bill and requests his customer either to pay immediately by check or else sign and return the trade acceptance. In the past, customers have bought goods with the understanding that they would pay for them within thirty days after receiving their regular monthly bills. With the trade acceptance they buy goods in exactly the same way, the only difference being that they are now asked to sign acceptances as written acknowledgments of the understanding that they are to pay within thirty days after receipt of the bills. Under the old plan a merchant could not go to the bank and discount the understanding which he had with his customer, because the understanding was not in writing. Under the new plan he can discount the trade acceptance at his bank because it constitutes the best type of commercial paper.

The method of procedure in putting this system to practical use is as follows: The customer buys a bill of goods, and if he cannot pay cash he is requested to sign a trade acceptance, which may run for ninety days, or, in rural communities, if the purchase is for agricultural purposes, it may run for six months. The retailer signs the paper also, takes it to his bank and gets cash for it, subject to the prevailing rate of discount. The customer now has the goods, the banker has the trade acceptance, and the dealer has his money. There is no more trouble with the transaction unless the customer fails to pay the acceptance at the specified time. The banker is the one who makes the collection. If the

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customer fails to pay, the dealer is in less trouble than if he had had an open book-account, for he has a positive acknowledgment not only of the receipt of the goods but of the accuracy of the account, and he can sue with little or no trouble.

**Five Advantages of the Acceptance.** While the change from the open book-account system to the trade acceptance system does not involve any new methods of selling goods or of transacting retail business, nevertheless it does away to a large extent with five difficulties under which retail merchants operate. These difficulties are (1) the losses and annoyance which come from long-drawn-out efforts to collect past-due accounts; (2) the danger that customers will purchase more goods than they can pay for; (3) the difficulty of combating dishonest and unfair claims and set-offs; (4) the inability of merchants to borrow from their banks more than 50 per cent. of their accounts receivable; and (5) the restriction on bank loans due to the rule that banks cannot loan more than 10 per cent. of their capital and surplus to any one concern. It would seem as though the practical elimination of these disadvantages should amply justify the most careful consideration of the trade acceptance system by all merchants, and it is interesting to note how these changes will be brought about.

**Encourages Prompt Payment.** Customers of retail stores will pay promptly when the trade acceptance is due, because they will regard a fixed date in writing as important, while they might not feel the importance of paying on open book-accounts exactly on the due date. As a matter of fact, they often let them run long past due. This system also guards the merchant against bad accounts because, when he offers a trade acceptance to the bank for discount, the banker passes upon it, and if he knows anything against the credit standing of the acceptor or customer, he tells

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the merchant, and the merchant is warned against extending further credit to this customer without first making a careful investigation as to the safety of the account.

Partial payments can be accepted on trade acceptances as on open accounts, and if for any reason the customer cannot pay on the due date and the merchant consents to an extension of time, this can be arranged by securing the customer's promissory note with interest, thus saving the merchant the loss of interest which he now suffers on past-due open accounts. Prompt payment of accounts is a great help to the merchant against mail-order competition, because many people run past-due accounts with the local merchants while they spend their ready money with out-of-town concerns which require cash in advance.

Definite due dates separate a merchant's desirable customers promptly from the undesirable ones and limit the amount of goods sold to those who are unable to pay. Consequently, his chance of loss from bad debts is greatly reduced.

**Discourages Unfair Claims.** When the trade acceptances are used, customers of retail stores are not able to set up dishonest and unfair claims against the merchant when he is compelled to sue on a past-due account. As such claims, made long after the sale of goods, are difficult to combat and often result in losses to the merchant, not to mention legal expenses and the loss of business that usually follows long-drawn-out disputes. When a trade acceptance is given, however, the goods are at once acknowledged to be satisfactory to the customer, and if the trade acceptance is not paid an outside holder can sue exactly as on any other negotiable instrument.

**Discourages Overbuying.** Customers of retail stores are not inclined to buy more than they can afford to pay for, if they understand that they must pay on a definite due date. Under the open book-account system, they do not

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feel any real responsibility to pay promptly, and consequently the temptation is ever present to run up large accounts with the various merchants, with the hazy resolve to pay up some time in the future.

**Increases the Store's Borrowing Power at the Bank.** The retail merchant borrows from the bank upon his signed statement. The bank's line of credit on such a statement would not exceed 50 per cent. of the store's accounts receivable. The bank will not only extend a reasonable line of credit based on the inventory when such a line is necessary, but will discount practically 100 per cent. of the store's trade acceptances because they will all be in the form of negotiable instruments carrying two names, that of the merchant and that of the merchant's customer. The banker knows that each trade acceptance represents an actual sale of goods and is pretty sure to be self-liquidating, because the acceptor has planned to pay it out of his fixed income. Under the old system, the banker never could be certain that the money he advanced on the single-name note of the merchant was actually going to be used for outside purposes, and the banker had no way of knowing just how the merchant was going to raise the money to pay his note when the due date arrived.

Every banker appreciates the advantages of double-name paper of a self-liquidating nature. Furthermore, trade acceptances are rediscountable at the Federal Reserve banks at a rate of interest at least one-half of 1 per cent. lower than the rate on promissory notes.

Many small banks are unable to satisfactorily handle the business of the larger local business concerns because they can only extend them credit to the extent of 10 per cent. of the capital and surplus of the bank. If these business concerns use trade acceptances instead of open book-accounts, their banks will be able to extend them such credit as they



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are justly entitled to have, because trade acceptances do not come within the 10-per-cent. rule and can be discounted for any amount considered safe and prudent by the bank officers.

**Limitations on the Use of Trade Acceptance by Some Retailers.** There are limitations to the general application of the acceptance in certain retail lines which, from the conclusions reached after discussion in the Boston Convention of Retail Credit Men, will prevent its general use.

If the customer can be made to pay cash, or even settle his bills in full to the retail merchant within thirty days, the retailer can discount his bills or pay them as they become due, without resorting to the trade acceptance.

In cases where the acceptance is used, but where payment is refused by the consumer when presented, the retailer must make good to the bank. In cases where it is necessary to grant extensions beyond the original acceptance term, the retailer is no better able to pay the account than if he carried it on open account. The burden is his just the same.

There are undoubtedly retail lines like certain hardware-stores, dealers in agricultural supplies, and general stores in rural communities, where a time element beyond the usual thirty-day settlement period is not unusual where the acceptance has doubtless worked to advantage. Stores selling food products, however, or goods that are immediately consumed, which still require strict thirty-day settlement of purchases made many times during the month in small amounts, would not be particularly benefited by the use of acceptances.

When the customer of a department store, for example, gets his statement at the end of the month, he is supposed to send his remittance, not a promise to pay later. His account is already from fifteen to twenty days old, and it is time to pay it, not to promise.

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The expense of handling the acceptance arrangement, furthermore, would be heavy on accounts of average or small size for retailers of this class.

**Form of Acceptance.** The Federal Reserve Board has discouraged the use of the trade acceptance where it represents material purchased and intended to be used in a fixed investment; it has discouraged its use in connection with instalment payments or with things intended for personal use or satisfaction. It has endeavored to have the acceptance represent a strictly commercial transaction—the purchase of goods intended for resale.

The following form of trade acceptance embodies all the requirements of the instrument:

<b>TRADE ACCEPTANCE</b> The obligation of the Acceptor of this bill arises out of the purchase of goods from the drawer.	.....	No.....	Date.....	\$.....
	..... <i>Acceptor.</i> .....	on.....	Pay to the order of	
		.....		
		.....Dollars		
			Value received, and Charge the same to the account of	
		To.....	}	

Across the face of the acceptance the customer or acceptor writes the following in red ink:

Accepted.....

Payable.....

(Specify Bank or address)

**Convenience of a Bank Account.** Because of its convenience, almost every merchant nowadays makes use of the bank to the extent of carrying an account with it. Money

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received in the course of the day's business is deposited in the bank for safe keeping. It is dispensed by means of the store's checks, drawn by those authorized to do so in payment of the thousand and one obligations for goods, or services bought.

To that extent, then, the merchant knows and appreciates the bank's service in the business community.

Because of the fact that the credit and collection man is called upon to handle customers' remittances on accounts in the form of bank checks, it is essential that he have a clear understanding of the common situations that may arise in a depositor's relation with his bank, like "overdrafts," checks "protested" for non-payment, and many more.

**The Meaning of an Overdraft.** Sometimes when a check is presented, drawn against a running account which is not large enough at the moment to take care of the check, the bank will not make partial payments, inasmuch as it must be able to produce the check as a voucher or evidence of payment. Therefore, the bank will pay the entire amount of such checks and charge the difference against the depositor's account. This is what is known as an "overdraft," and it amounts to an advance by the bank of money to the depositor.

Strictly speaking, allowing a customer to overdraw is against the rules of any bank. Unusually it is evidence that the depositor's credit is considered good, and his banker is intimately acquainted with his business affairs and allows this temporary accommodation to protect that credit.

It goes without saying, then, that the overdraft privilege, being a pure accommodation, if abused, will not long be extended to anybody.

**Stopping Payment on Checks.** There are occasions when a merchant, having drawn a check and sent it to pay an account, may change his mind and wish to withhold pay-

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ment for some reason. In such cases he may instruct his bank not to pay the check when it is presented, and the bank is obliged to follow his instructions. If through error the check should be paid in spite of the merchant's instructions, the bank must stand the loss.

If a merchant's name has been forged to a check which is presented and paid at the bank, he may hold the bank liable for the loss. It is the bank's duty to make sure that signatures are genuine on all checks it honors.

**Handling Sight Drafts Through the Bank.** While it isn't very often that a retail credit man has occasion to draw a sight draft on a customer of his store for payment of his balance, it is not uncommon practice for a jobber to draw on retailers for the amount due on accounts, and therefore it is important that the credit man should understand exactly how drafts are handled. The draft most commonly used is drawn ordinarily at sight or with an allowance of a few days by one individual or mercantile house on another, or on an individual as a part of the system of collecting past due accounts.

A draft is really nothing more or less than a request for money that is due from one person to another which is transmitted not direct, but through the agency of a bank.

The bank may be one in which neither party has any particular interest or money on deposit, but the presenting of a draft is a legitimate part of any bank's service, for which a small charge is usually asked.

Drafts are a great help in collections. They are, as a matter of fact, little more than a presentation of the account by means of a collector, but this collector is a bank; and this gives the presentation a formality, a publicity, and a weight that make it very effective. There is no reason why payment of a draft presented by a bank should not be refused with the same readiness as a statement in the hands

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of an ordinary bill-collector. As a matter of fact, however, the debtor does, in most cases, feel an injury to his credit in refusing to pay a formal draft duly presented through a bank, which he does not feel when he refuses a collector's request for payment.

Speaking generally, drafts should not be drawn without first notifying the debtor, for otherwise the draft is not so likely to be paid and there is a strong probability of giving offense.

When, therefore, a draft is to be drawn, the collection manager should write a letter in such a tenor as the circumstances require, calling attention to the condition of the account and notifying the debtor that he will be drawn upon if the amount is not paid within, say, the next five days. Ample time should always be given for the letter to reach the destination, and for its reply to come back. If, at the end of a specified period, payment is not forthcoming, nor any satisfactory explanation of the delay, a draft is drawn and deposited for collection.

The draft may either be sent direct to a local bank in the debtor's locality or it may be deposited by the drawer in his own bank and forwarded by the bank to its correspondent bank in the drawee's home town.

When the amount is small such drafts are usually made payable at sight. When the amount involved is larger, it may be wise to give a few days' grace, making the draft payable from one to five days' sight, according to the circumstances. It is better, where possible, to have the draft come through a bank other than that at which the debtor transacts his own business; for the effect is greater, as the strange bank is not so likely to favor the debtor by holding the draft unduly. Occasionally a bank friendly to the debtor will hold a draft for several weeks, or until the sender of the draft has it traced.

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### The Place of the Bank Draft in Collection Follow-up.

The collection manager's draft is usually deposited for collection in the bank with which his concern does its business. Slips may be attached to the draft containing any instructions that may be necessary for the bank. If the bank with which the debtor does business is known, the collection manager should ask to have the draft sent to some other bank in the town in which the debtor resided. Where many drafts are drawn, it is quite customary to send to the bank with them some small fee to cover collection charges—usually ten cents for each draft; and this payment undoubtedly does secure better attention to the draft, and in the long run probably more than justifies the expense.

The fact that a draft has been drawn and deposited in the bank for collection does not lift any responsibility for the account from the shoulders of the collection manager. He must still watch it as closely as ever until the draft is paid. For this purpose his invoice should be placed ahead in the collection file for such number of days as he thinks the draft may require to reach its destination, be presented, and the funds or a report be returned. If, at the expiration of that time, no report has been received, he may either place the instrument ahead a few days, so as to give the bank a little additional time, or, if he thinks best, call on it for a report as to the whereabouts and the condition of the collection.

Banks, as a rule, do not make any strenuous effort to collect a draft. When it comes in they give it to a messenger for presentation, or, in many cases, merely mail the debtor a notice stating that a draft has been received, and requesting him to call and pay it. When the draft goes out by messenger he presents it for payment and leaves it, if it is paid, but otherwise brings it back to the bank, leaving notice at the



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office of the debtor for him to call at the bank and make payment.

In either case the draft, if a no-protest draft, is held over a day or two, or as suggested, and then, if not paid, it is returned to the party who sent it, with the briefest possible report, such as "no attention," "no reply," "not found," or such other statement as the circumstances require. If the draft is to be protested—as will be done unless it is marked "no protest," or instructions have been given that it is not to be protested—the formal protest follows upon non-payment, and this adds protest fees to the expense of handling the collection unless the fees can be recovered from the debtor later. If the draft is paid the collecting bank sends the funds to the bank from which it received the draft; the collection manager's concern is notified that payment has been made and the amount is credited to his account.

**Protesting Checks or Drafts.** It is sometimes advisable to protest a refused draft of which ample notice has been given, because a protest tends to make the debtor more careful of such matters. In order to give a clear idea of the process employed in protesting either check or a draft, let us assume that the check in question is one deposited in a given bank, drawn on another bank in the same place. The depositor will then include this check with his other items and send to the particular bank which is best equipped to handle it. The bank receiving the item, finding that it is not good, sends it back to the bank in which it was originally deposited and receives the cash for it. This is usually handed to the bank messenger by the note-teller of the bank in which it is deposited, though some banks refund the money at the paying-teller's window. As a rule, however, it reaches the note-teller for further attention. He makes a proper record of the fact that the item has been returned,

## RETAIL CREDITS AND COLLECTIONS

and, if the instructions are to have it protested, turns it over, after the close of business on that day, to the notary public, who usually attends to this work for the bank. The notary usually receives these items after the closing of the bank, and then goes himself to the bank on which the check is drawn, and presents the check again to the paying-teller for payment. The paying-teller makes a new investigation of the account and refuses payment on the check. The notary then returns to his office and writes out a formal protest against the non-payment of the check. This protest is usually in the following form:

UNITED STATES OF AMERICA }  
STATE OF NEW YORK        }  
COUNTY OF KINGS        } ss.

I HEREBY CERTIFY that on the ..... day of ..... , 1914, at the request of the A. B. C. National Bank, I ..... , a Notary Public of the State of New York, duly commissioned and sworn, dwelling in the County of Kings, Borough of Brooklyn, in the City of New York, did present the original check hereto annexed to the X. Y. Z. National Bank at ..... , and then and there demanded payment thereof, which was refused, whereupon I, the said Notary, at the request of the aforesaid, DID Protest, and by these presents do publicly and solemnly PROTEST, as well against the maker, drawer and indorsers of the said check as against all others whom it may concern, for exchange, reexchange, and all costs, damages and interest already accrued, and to be hereafter incurred for want of payment of the same. Thus done and protested in the Borough of Brooklyn, City of New York, aforesaid, in the presence of John Doe and Richard Roe, witnesses.

I FURTHER CERTIFY that on said day, due notice of all the foregoing matters, including the said presentment demand, non-payment and protest of the said original check and demand and refusal of the payment thereof, as given by me in behalf of the said bank, to each and all of the following named persons, being makers, drawers or indorsers of the said check by depositing on said day written notices thereof, signed by me, each notice securely

## THE CREDIT MAN AND THE BANK

inclosed in a duly postpaid wrapper, in the United States Post Office at Brooklyn, Kings County, New York, which said notices were duly, respectively addressed as follows:

..... at .....  
..... at .....  
..... at .....  
..... at .....

which places above named set opposite the respective names of said parties, are the reputed places of residence of the said persons respectively, and the post office at the above named places being in each instance the post office nearest to the said respective places of residence, which said notices duly contained in each instance a description, its date, amount, due date, and the names of the parties, which said notice included the statement of said presentment, demand, non-payment, dishonor and protest.

IN TESTIMONIUM VERTATIS.....

Notary Public,  
Kings County,  
New York.

The notice, which is referred to in the formal protest and sent to each of the parties named, would read as follows:

Date.....

Brooklyn, New York.

YOU WILL PLEASE TAKE NOTICE that a check, made by  
.....  
for \$....., dated.....  
payable at.....  
indorsed by you and due this day and duly presented for payment  
at the place therein testified where the same is payable, and that  
payment thereof has been refused, and that the same IS PROTESTED  
for non-payment, and that the holders look to you for payment  
thereof.

Respectfully yours,

Notary Public,  
Kings County,  
New York.

To.....  
.....

## RETAIL CREDITS AND COLLECTIONS

After the notary has completed his work and mailed the notices, he returns the check, together with the protest form pasted to it, to the bank who handed it to him. He is then paid his fee, which usually amounts, in the state of New York, to \$1.25, plus the cost of postage. The bank then charges the check, together with the cost of protest, to the account of its depositor.

The effect of the protest is to give notice to all who are concerned, including the indorsers, that the check was properly presented at the place where it was payable on the day it was due. In the case of notes it is necessary, because if a note is not properly presented, all indorsers are released from further liability. They have the right to assume that, if demand is not made upon them, the note has been paid. A protested check is legal evidence before a court that this presentation has been properly made, and this is the reason for its use.

**Using Care in Indorsement of Checks.** If a check is made payable to John Smith or bearer, it is not the bank's fault if the wrong person gets the money, because it has done no more than follow instructions. In that case the loss is the merchant's.

When checks are sent to the bank for deposit, they should be indorsed on the back "payable to the —— bank" and signed. Checks or drafts should not be indorsed in blank. Thousands are indorsed in that way every day, but the practice is always risky.

A merchant one day received a draft for fifty dollars. He wanted to make a similar payment to his jobber, so, instead of buying a new draft, he merely wrote his name on the back of this one and remailed it to the jobber. The draft fell into improper hands and was cashed. The merchant lost his money. What he should have written on the back of the draft was "Pay to the order of ——" and then signed

## THE CREDIT MAN AND THE BANK

his name. Then when it fell into improper hands, this person could not have cashed it without committing forgery.

The merchant may send a messenger to the bank to make deposits for him, included in which are checks indorsed simply with the merchant's name. Under these circumstances, the messenger, if he wanted to do so, could write his own name under the merchant's signature and secure the money. The loss in such a case would be the merchant's. When checks are sent to the bank for deposit, see that they are indorsed on the back, payable to the bank and not in blank.

**Constructive Aid from the Banker.** So it will be seen that the merchant who has once established credit with his bank should realize that his credit standing is a part of the character of his business and that it is something that may stand him in good stead in times of stress. It is no wonder, then, that the banker elects to do business only with people who are strictly businesslike and of unquestioned character. But the retail merchant's real interest in his local bank is much more fundamental than to observe the simple "don't" of safe indorsements or the like. His interest is to make his acquaintanceship with the banker a really constructive and helpful influence in his own business.

For example, the mere acceptance of funds for deposit and the convenience of the bank's checking account are but items of its services to the merchant.

A banker's stock in trade is credit. He buys and sells it in the form of rights to the use of money. This right to use money or the bank's credit is available for use in expanding the merchant's business. Under the right conditions the banker is glad to let the merchant have the bank's money, and under these conditions the merchant can well afford, in the interests of his business, to borrow wisely, to discount his bills payable, thus effecting a clear saving

## RETAIL CREDITS AND COLLECTIONS

of considerable money that would not be possible if he tried to make the money out of his own business for the purpose. Every merchant knows that it is expedient at certain times during the year to arrange short-term loans in order to take advantage of discounts or meet maturing bills and still save money over and above the interest charge.

**When the Banker's Friendship Helps.** And loans of this kind, if his affairs are in order, boost the retailer's credit not only with his jobber, but with his banker as well, who, like a real credit man, likes to do business with a man who pays his obligations promptly when they are due.

There's a real dollars-and-cents advantage, then, in standing well with the banker. To do that the merchant must stand right with himself, must know the exact condition of his business from all angles, and be able to show the banker at any time that his affairs are in order.

Probably no item of a store's statement of its affairs is more carefully scrutinized by the banker to get its real condition than the statement of its accounts receivable.

Invariably the store, when making a statement to the bank, will seek to show a solvent, liquid condition of its finances. When examining such a statement, if the bank should find a large amount of accounts receivable, more than from one-tenth or one-twelfth of the sales, there will be some questions raised. The implication at once is a laxness in the store's collection policy and lack of financial ability on the part of its management. So right at this point is where the store's credit and collection policy and its administration plays a very important part in the upbuilding of a store's financial standing.

Bank credit is valuable for a business man, especially in a community of moderate size, where every one is acquainted with his neighbor. Banks are frequently asked to give information regarding the credit standing of their

## THE CREDIT MAN AND THE BANK

depositors and others. While they guard carefully against giving details about a merchant's business, they must, of course, give some answer to the inquiries made. The value of a retailer's account with the bank, the nature of his business, his business methods and his general standing in the community, all have an influence on the banker when he makes his estimate. Once the banker is permitted to know a merchant's business and his financial condition, he is in a position to exert a wide influence for good in the merchant's favor. The report he gives to the commercial world regarding the store, when called upon for information, is more important than anything anybody else can say. The banker is usually the last source of information to confirm the statements regarding a merchant's standing gained through other sources.

## XVII

### CREDIT AS A BUSINESS-DEVELOPER

**The Credit Man as a Mixer.** The retail merchant has always been a more or less uncommunicative individual, disposed to keep his business strictly to himself. He has generally fought shy of the idea of co-operating, especially with competitors.

Within the last few years, however, he has come to see the advantages of closer contact and co-operation with his fellow-merchants. He no longer keeps so much to himself. He tells with much pride now how he runs his business, and he is hearing how other merchants run theirs. He is beginning to combine with others, to increase trade. He is promoting the organization of merchants' associations and bureaus for the exchange of information wherever possible.

The career of the Filenes of Boston affords one of the many examples of the kind of success which may follow the new way of carrying on a retail business. In 1891 the Filenes occupied two small retail stores in Boston, with floor space each of about twenty square feet. Twenty years later their sales were nearly \$5,000,000 a year, and they now occupy a building with more than nine acres of floor space, with sales totaling about \$15,000,000, and all of it from ready-to-wear merchandise.

The Filenes assert that the greater efficiency of their employees shows industrial democracy and social justice have



## CREDIT AS A BUSINESS-DEVELOPER

been money-makers for them. The so-called practical business man, the narrow money-maker, without either vision or ideals, who pooh-poohed the Filenes as impractical theorists has been answered on his own plane of material success.

**Prosperous Community Makes Prosperous Retailers.** When merchants ask themselves, "Why is business bad?" the common answer is, poor crops, tight money, or the war. But the real trouble is with the people to whom they sell. When people are poor they cannot buy. They cannot satisfy their wants by purchasing goods. They cannot pay their bills for which they are given credit. Every improvement, then, in the condition of people in the community helps to make business better. If the prosperity of a city or a community depends upon the retail business, it is equally true that the prosperity of retail business depends upon the prosperity of the community. The merchant must, in self-defense, see that the city in which he is doing business is well governed. To do this he must take a hand himself. And so business men everywhere are coming to realize that it is just as much a part of their business to participate in their cities' affairs as it is for them to devote their time to their own individual business enterprise.

To do this it is not necessary to run for office, but any man can give the benefit of his experience and business knowledge to help make his city a place to be proud of commercially, socially, and industrially.

**Broadening the Store's Influence.** While it would ordinarily be assumed that the job of keeping a store's good name and reputation for service to the community fresh in the minds of its residents is one for the store's advertising to perform, consider how directly its credit and collection policy may affect the results.

Every account in the store's books which is kept open

## RETAIL CREDITS AND COLLECTIONS

and active is proof of continual satisfaction with its goods and service. The minimum of complaints because of delivery errors, or delays because of discourtesy by salespeople, or from poor quality of goods, makes powerfully for lowered costs of doing business and an always widening store influence, with an inevitable increase in the volume of sales.

Real tact and judgment exercised in the every-day pursuit of money due from slow accounts, so that there may be the least possible need to resort to unpleasant collection measures, is no small contributing factor in this broadening of the store's influence.

**Creating Wants That May Safely Be Supplied.** The lists of a store's customers—regular charge customers as well as cash buyers—constitute perhaps its most valuable, and certainly its most direct, contact with the individuals living in the community. The care exercised in the selection of the names for such lists, on which large sums may be spent for circularizing to tell of the store's offerings, offers to the credit office a most valuable opportunity to save itself trouble, and the store from losses, if it eliminates any one of doubtful standing.

With its facilities at hand for securing and checking names and addresses, the credit office assumes the importance of real first aid to the work of promoting a store's publicity campaign through circularizing.

In increasing the store's sales, no matter what means may be taken to do it, it becomes necessary to increase the number of its customers. As a business grows and expands, and as a town grows, the number of customers of a store will automatically increase, provided the merchandise, the store service, and the prices are right, and provided they offer sufficient inducements to new-comers and people who have traded at other stores to make their purchases at a store where they have never traded before.

## CREDIT AS A BUSINESS-DEVELOPER

When a store does an extensive credit business, it is the natural object of the credit man to consistently increase the number of its desirable accounts. This may be easily done by means of personal letters to those who are known to pay their bills promptly, and who perhaps have maintained accounts at other stores.

**Recalling the Store's Service.** Important as it is for the store's credit man to provide for the opening of new accounts, and for collecting money due on accounts that have been opened, there is one more function that he is no less bound to perform, namely, to see that his accounts are kept active, and not allowed to lapse after being opened.

There are a great many people who will apply for credit, and to whom credit will be extended, who, after the account has been opened for a few months, will drop away from the store where they have been buying. It is the credit man's business to investigate to find out why the account has become inactive.

In some cases a series of letters to a list of such customers have brought interesting returns. One credit man mailed a blank statement to each name on his inactive list, on which appeared a rubber-stamp impression as follows:

This is the first statement we have mailed you in several months. Just see how much you owe us. What's the trouble? As always, we should be happy to serve you.

Some of those to whom his statement was directed were inclined to be indignant until they read the message. On the whole, however, it brought quite a decidedly favorable response.

Another effort of the same sort is illustrated in the statement reproduced here sent out by Godchaux's, New Orleans, Louisiana.

RETAIL CREDITS AND COLLECTIONS

Amount Enclosed

\$ \_\_\_\_\_



OUTFITTERS for MEN and BOYS  
COR. CANAL and CHARTRES STS.  
NEW ORLEANS

Last  
Amount  
in this  
Column  
is Debit  
Balance



Sold to     Mr. S.B. Lemle,  
              624 Gravier St.  
              City

Statement of your Account for the Month of     **SOMETIME AGO**  
TEAR OFF AND RETURN STUB WITH REMITTANCE. CANCELED CHECK RETURNED BY BANK IS YOUR RECEIPT

DATE	X LOT NO.	ITEMS	CHARGES	CREDITS	BALANCE
LONG AGO		A SUIT OF CLOTHES	NONE		
		A HAT	NONE		
"		A PAIR OF SHOES	NONE		
"		SHIRTS	NONE		
"		NECKTIES	NONE		
"		UNDERWEAR	NONE		
"		BOYS' CLOTHES	NONE		
		<i>You've been too good a customer of the Godchaux Store to stay away so long. Why haven't you bought anything from us recently — anything wrong?</i>			

X    **BILLS PAYABLE MONTHLY.**

Claims must be made within Ten Days.

**GODCHAUX'S**

## CREDIT AS A BUSINESS-DEVELOPER

**Making the Community Safe for Business.** There is a large number of people who desire to meet their obligations, unquestionably, but who, for various reasons, like illness, misfortune, poor management, and the like, find themselves unable to pay their bills promptly.

The establishment of Morris Plan banks in various cities throughout the country—there are more than a hundred in operation now—is coming to be of the greatest help in the collection of retail accounts. Any one with good character and an earning capacity just a little in excess of his necessary running expenses can secure money from one of these companies. This money can be used to pay his debts in full, and he can distribute his payments to the Morris Plan Company over a period of fifty weeks—or a shorter time, if he can make larger weekly payments.

Outlined briefly, the procedure in securing a loan from the Morris Plan Company is as follows: The applicant for a loan is asked to make a list of every debt he owes, and then to make application for a sum large enough to see that he can pay all his creditors in full.

The extending of credit to its borrowers by the Morris Plan Company is based entirely upon their good character and earning capacity—no chattel mortgages or pawns are accepted as security. Interest charges are at a rate of 6 per cent. per annum, and there is an extra charge for an investigation fixed at one dollar for every fifty dollars borrowed, but no fee exceeds five dollars. Interest and fees are deducted in advance.

The applicant is asked to give two other people with qualifications similar to his own—namely, a good character and fair earning capacity—to sign his note in order to provide for the meeting of the weekly payments in case the original borrower should for any reason fail to meet the payments.

## RETAIL CREDITS AND COLLECTIONS

**How the Morris Plan Works.** The experience of the Morris Plan Company, covering the making of loans of nearly \$30,000,000, has been that only two out of every hundred co-signers or indorsers have ever been called upon to help make the payments. In order that the borrower may accumulate enough money during a certain period to pay off his note of maturity, he is furnished with an instalment certificate which he pays for in fifty weekly instalments. If he is in a position to pay in more than 2 per cent. of the amount of his loan each week, the period for which the loan is made can be decreased in exact ratio to his ability to increase his weekly payments. This places the borrower in a position to pay his note promptly when due.

Under the operation of the plan the borrower has proven to him the fact that during his payment period he really can put away systematically a certain amount from his earnings each week, and he is encouraged to continue the practice.

The Morris Plan Companies pay interest at 4 per cent., computed after the twenty-fifth payment has been made, and as soon as the purchaser of one of these instalment certificates has accumulated fifty dollars he can convert it into a full-paid investment certificate which earns 5 per cent.

Retail credit men generally are coming to feel that the operation of such a plan as that offered by the Morris Plan banks, coupled with a real desire to be of help to people who have an honest wish to meet their obligations, must aid materially in decreasing the number of delinquents in a community.

They are usually glad to work actively in co-operation with such a plan, because by so doing they are helping to make their community more and more safe for business.

**Promoting Sales Through a Broad Credit Policy.** The statement is often made that a sale is never a 100-per-cent. sale until the money is collected. No profit is a profit

## CREDIT AS A BUSINESS-DEVELOPER

until it is cashed. No selling is complete until it has sold the customer the store's service and its terms as well as its goods. There is perhaps too little realization among merchants generally of the vital part played by credit-and-collection policies and methods in general sales strategy.

While much depends on details of how credit applicants should be handled, how often dunning letters should be sent, and so on, the store's broad credit-and-collection policy should originate in and be co-ordinated with its selling and merchandizing policy. As was stated definitely in the opening chapter of this book, credit losses must be viewed to some extent as sales expenses. There is an average mean figure of annual credit loss in any line of business. Up to this average the loss is a matter of general profit and loss; but there is no cheaper method of sales promotion in many cases than to buy some credit losses. There is no successful forward drive in sales without risk, and it pays to bet on human nature in selling, even if you charge the cost to the expense of selling.

How could it be otherwise? It isn't any great trick to collect a debt. The weapons are all in the hands of the store and the specific bill up for collection is the smallest pawn in the game of chess. The real thing at stake is the account itself—the good-will and desire to trade on the part of the customer. He represents the capital of the firm. The store's credit man squanders its vital capital when he drives away business or alienates accounts through failure to keep this broad sales viewpoint in mind when he is applying his credit-and-collection policy.

**Credit Administered from the Sales Angle.** A great many businesses to-day exist entirely on credit. Their success is universally due to the fact that their credit is administered wisely from the sales angle. When you extend credit you are extending two things—**confidence** and **time**. The mis-

## RETAIL CREDITS AND COLLECTIONS

take made with regard to confidence is that certain conventional standards are applied without real knowledge of human-nature risks. The credit judgment tends to become mechanical, cynical, and hypercritical, failing to realize that no human being can be sized up accurately for what he is without taking into account also what he is going to be. A man is always more than the cold circumstances of the moment make him out to be; and it is a deadly mistake to judge credit by circumstantial facts alone. In Detroit there are plenty of stories current of the inability of credit men and bankers a few years ago to correctly measure Henry Ford.

The failure of the credit man to properly get the sales point of view is paralyzing to business development. It cannot be too strongly emphasized that any credit department is absolutely missing its true opportunity if the general average of losses in the particular end of industry is being pushed lower by means of strenuous methods. It is a serious mistake to judge a credit department's "efficiency" by its reduction of credit losses below the average of the industry. Any credit department should be very rigidly investigated if the losses are below what they ought to be. The manager in any line of business ought to work out this average and put it up to the credit man to keep losses at that level, neither above nor below.

Money spent on average credit losses is money invested or paid for the development of confidence and the proper taking of risks in that business. The average, of course, varies in different lines, according to the nature and number of risks undertaken.



## CREDIT

Credit—Is based on confidence.

Credit—Is the “bell cow” of business.

Credit—Is what some people ask for—but don’t get.

Credit—Is the pivot around which all business is centered.

Credit—Is the foundation to a happy life, if properly protected.

Credit—Is what people buy on; but some don’t seem to respect it.

Credit—Is the means some people take to get “something for nothing.”

Credit—And “booze” don’t mix any better than oil and water.

Credit—Puts the “shake” in a young man’s knees when he tries to get his first “red tie” on time.

Credit—Is the greatest possible asset a salaried man can have. He should be as jealous of it as a boy is of his first love.

Credit—And “home account-keeping” should be lectured on from time to time in our public schools.

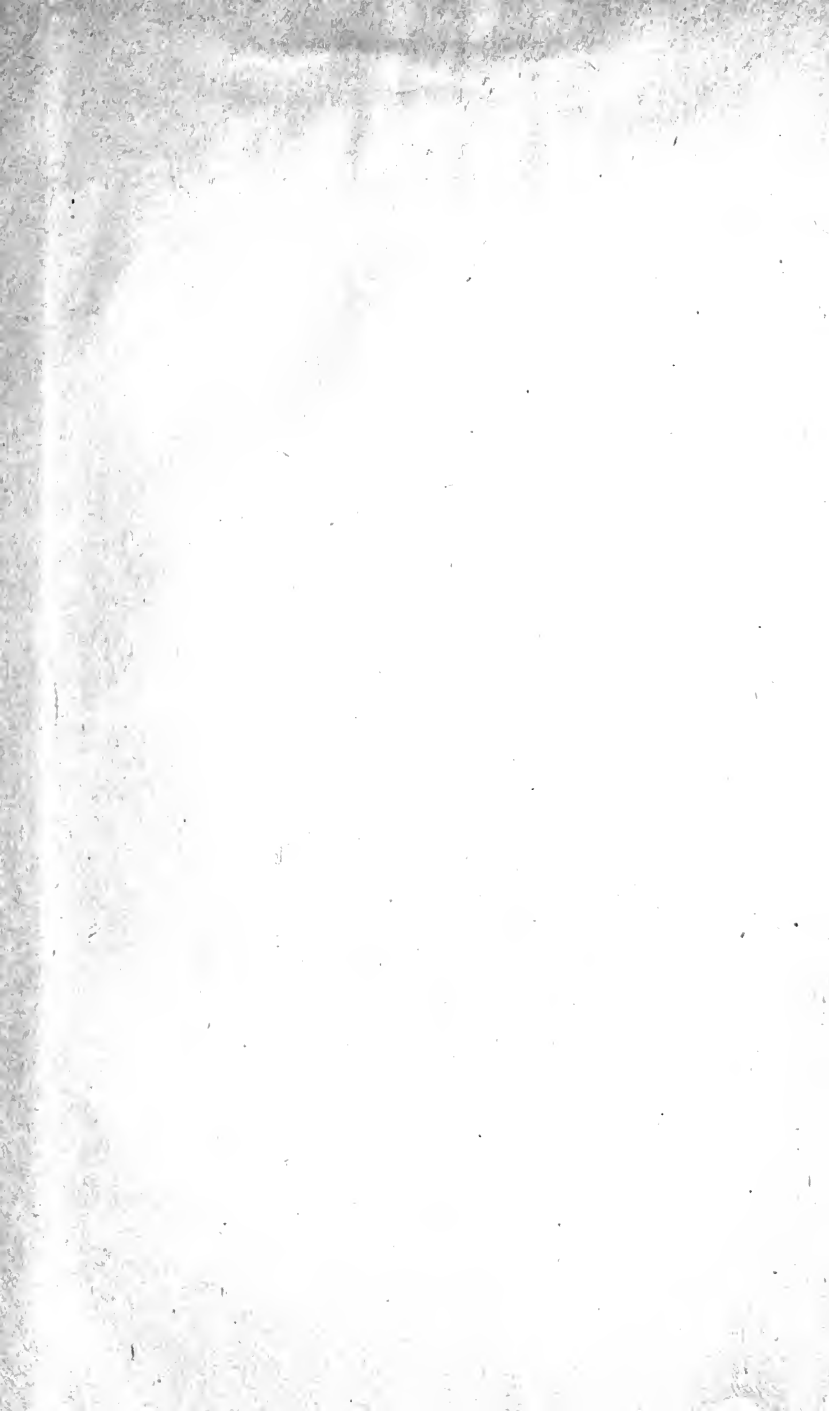
Credit—Is often the cause of a merchant’s wife wearing her last year’s bonnet (just because he doesn’t watch it as he should).

Credit—Is *the* one thing no nation on earth can get along without, and the better the credit the stronger the nation.

Credit—Is the basis of two of the country’s greatest business organizations—The National Association of Credit Men and The Retail Credit Men’s National Association.

A. C. PEARSONS,  
In *Credit World*.





THIS BOOK IS DUE ON THE LAST DATE  
STAMPED BELOW

AN INITIAL FINE OF 25 CENTS  
WILL BE ASSESSED FOR FAILURE TO RETURN  
THIS BOOK ON THE DATE DUE. THE PENALTY  
WILL INCREASE TO 50 CENTS ON THE FOURTH  
DAY AND TO \$1.00 ON THE SEVENTH DAY  
OVERDUE.

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